Corporate Social Responsibility Report 2003

# the energy to deliver

SaskEnergy

# 2003 CORPORATE SOCIAL RESPONSIBILITY REPORT

When SaskEnergy reports on its corporate social responsibility activities each year, one objective is consistently clear: to do better.

Improving our numbers or percentages is only one part – and is often seen as the key to our reporting. However, things that can't be measured, such as attitudes and opinions, are no less important to us just because they can't be charted or tracked explicitly. A balanced focus on both the measurables and the intangibles in fact makes or breaks a company's success as a good corporate citizen.

SaskEnergy's 2003 Corporate Social Responsibility Report paints the entire picture – it celebrates our successes, tracks our progress and outlines areas that need improvement. Through this level of disclosure and a commitment to do better where we can, we will help enrich Saskatchewan, making this a better place to live, to work, and to raise a family.

Through our energy we can deliver a better future.

## ENERGIZING OUR COMMUNITIES

For the past five years SaskEnergy has supported KidSport™ Saskatchewan, a non-profit organization that helps underprivileged children participate in sports. To date we've raised more than $156,000. During 2003 we took this commitment one step further through a unique "Line Up With the Legends" event involving employees, corporate participants, and a few Saskatchewan Roughrider greats. Twelve teams and 'Rider' legends like Roger Aldag, Cleveland Vann, Bob Poley and Don Narcisse raised $28,000 for KidSport, and ran an obstacle course for football fans during half-time at the Rider home game on September 28. Team TransGas, shown below, won a prize for raising the most funds for KidSport.

*Pictured (left to right): James Gates, Peter MacLachlan, Roger Aldag, Tanya Lang, Scott Terison and Daryl Posehn.*

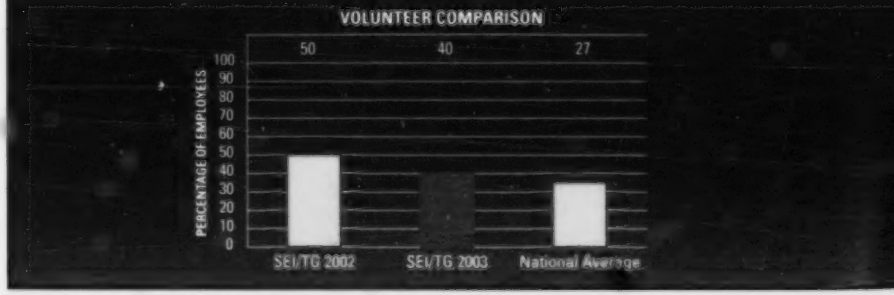
# ENERGIZING OUR COMMUNITIES

| STRENGTHENING OUR COMMUNITIES | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Objectives** | **Measures** | **Actual 2003** | **Target 2003** | **Target 2004** | **Target 2005** | **Target 2006** | **Target 2007** | **Target 2008** |
| Demonstrate a philosophy of Corporate Social Responsibility | Community Relations Investment ($ millions) | 1.45 | 1.31 | 1.49 | 1.54 | 1.58 | 1.63 | 1.68 |
| | Number of Projects Funded | 1,334 | 900 | 1,300 | 1,300 | 1,300 | 1,300 | 1,300 |
| | Number of Communities Impacted | 270 | 200 | 270 | 270 | 270 | 270 | 270 |
| | Volunteer Hours Donated by SaskEnergy/ TransGas Employees | 4,387 | 4,400 | 4,400 | 4,400 | 4,400 | 4,400 | 4,400 |

To build better communities and a stronger Saskatchewan, we engage the talent, dedication and enthusiasm of our employees. We also remember that as a good corporate citizen, we channel our support throughout the province. Saskatchewan is first and foremost our home.

## *People*

Employee volunteerism levels are strong at SaskEnergy/TransGas, proving that when employees believe in what you're doing, they'll stand behind you. Our employees make a direct correlation between the company they work for and the communities in which they live, understanding that if they do their part to make things better



where they live, then they too will benefit. It's the ultimate win-win situation.

In the spirit of friendliness and enthusiasm, more than 150 SaskEnergy/TransGas employees volunteered during the 2003 Grey Cup in Regina. As the official sponsor of Grey Cup volunteers, SaskEnergy encouraged our employees to get involved and demonstrate Saskatchewan's hospitality at its finest. From organizing a volunteer appreciation night for 3,000 people, to working at many festivities in the days leading up to the game, our employees helped make this one of the best Grey Cups ever.

The 2003 SaskEnergy Share the Warmth Recycling Project was one of the most memorable in history, a fitting achievement for the program's 10th anniversary. Through the support, commitment and generosity of our employees, partners, community groups and fellow Saskatchewan people, more than 650,000 pieces of clean and usable clothing have been shared with less fortunate people in this Province over the past decade. In 2003 alone, almost 110,000 warm fuzzies were collected!

Thanks, Saskatchewan!

*91% of employees polled through a Hewitt survey of top Canadian employers in 2003 say SaskEnergy creates something that adds value to our community. More than 90% also agree our company acts as a good corporate citizen in the community. These figures placed SaskEnergy above the average recorded by the top 50 employers in Canada.*

*Students at Lakeview School in Regina and Saskatoon helped kick-off the 2003 Share the Warmth Sweater Recycling Campaign and celebrate the 10-year success of the program. This year's theme was "Kids Helping Kids."*

# ENERGIZING OUR COMMUNITIES

The Canadian Centre for Philanthropy recommends that interested companies dedicate a minimum of 1% of pre-tax profits to community and social initiatives each year. Many organizations voluntarily choose to surpass this target.

| | 2003 (actual) | 2003 (target) | 2004 (target) |
|---|---|---|---|
| Total SaskEnergy Community Relations investment | $1,449,459 | $1,312,200 | $1.493,000 |
| % of Budgeted annual profits | 2.57% | 2.4% | 2.3% |

## *Places*

With more than 500 communities in Saskatchewan, spreading our support to as many places as possible is a cornerstone of our community relations program.

Our three sponsorship funds help us reach that objective. The Share the Warmth Fund channels support to events and activities in smaller areas across the Province. Our General Sponsorship Fund supports larger initiatives, and our Aboriginal Sponsorship Program targets activities and organizations that improve the quality of life for Aboriginal people in the Province.

Examples of some of the more than 1,300 events and organizations supported by SaskEnergy and TransGas in the priority areas of Education, Community Initiatives, and Saskatchewan Excellence around the Province include:

- Prince Albert Conservation Learning Centre;
- Saskatchewan First Nations Summer Games at Flying Dust First Nation near Meadow Lake;
- Kindersley Junior Klipper Beef Rally;
- Maple Creek Scouting Association;
- Saskatoon Exhibition FirePower Competition for Saskatchewan volunteer firefighters;
- Back to Batoche Days for the Métis Nation;
- Annual provincial My Favorite Book contest for the Saskatchewan Library Association;
- Regina Globe Theatre Lanterns on the Lake Family Festival;
- Rural Women's Achievement Awards in Humboldt; and
- Summer Sizzle Community Barbecue fundraiser for Cudworth School.

**GROW WITH US**

**For more information about our community relations programs, including information on how you can apply to the SaskEnergy Share the Warmth Fund, please visit our website at www.saskenergy.com/community/fund.htm, or call (306) 777-9378.**

*To help address the BSE crisis and support the Canadian beef industry, TransGas and other natural gas producers purchased $27,000 worth of beef and donated it to six charities in southern Saskatchewan.*

## ENERGIZING OUR PEOPLE

Our Leadership Development Program (LDP) provides employees with the tools and techniques they'll need as they develop and grow into the leaders of tomorrow. Launched in 1998, this program represents an investment worth about $10,000 per participant, helping prepare these future leaders for the challenges and responsibilities they will experience as they progress through the company. Pictured below are members of the fifth LDP group. For the first time, participation in the LDP Group - which includes four weeks of classroom instruction, personal development courses and business project work - was extended to people from companies with a business relationship to SaskEnergy.

# ENERGIZING OUR PEOPLE

| STRENGTHENING OUR COMMUNITIES | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Objectives** | **Measures** | **Actual 2003** | **Target 2003** | **Target 2004** | **Target 2005** | **Target 2006** | **Target 2007** | **Target 2008** |
| Demonstrate a philosophy of Corporate Social Responsibility | Diversity Hires | 49% | 32% | 34% | 35% | 35% | 35% | 35% |
| | Representative Workforce | Percentage (%) for the following to be calculated yearly on December 31st. | | | | | | |
| | Aboriginal | 9% | 9.7% | 10% | 10.5% | 11% | 11.5% | 12% |
| | Women | 42% | 40% | 40% | 40% | 40% | 40% | 40% |
| | People with Disabilities | 4% | 4.4% | 4.4% | 5% | 5.5% | 6% | 6.5% |
| | Visible Minorities | 2% | 1.3% | 2% | 2.5% | 3% | 3.5% | 4% |
| **INSPIRED PEOPLE** | | | | | | | | |
| Employees will work in a safe, healthy and rewarding environment | Lost Time Frequency Rate | 1.28 | 0 | 0 | 0 | 0 | 0 | 0 |
| | Preventable Vehicle Collision Frequency Rate | 2.73 | 0 | 0 | 0 | 0 | 0 | 0 |
| | Percentage of Employees Who Receive Enhanced Training | 80% | 80% | 80% | 80% | 80% | 80% | 80% |

Building a stronger company starts from the inside. Our Human Resources focus is to leverage the competitive advantage of our people through flexible, innovative programs. This enhances our employees' performance and optimizes shareholder value.

### *Strengthening our Workforce*

Within the next decade or so, a major percentage of Canada's workforce will retire. This evolution of sorts makes it imperative for all companies, including SaskEnergy,

to start competing for the next generation of workers. Trades, in particular, is one area where SaskEnergy and TransGas will need qualified men and women to fill the gap left behind as the babyboomers begin to retire.

To address this issue, SaskEnergy knows it must be seen as an attractive, progressive employer... not only offering competitive salaries, but also exciting job opportunities, good benefits, and a supportive environment where all employees can learn and grow. Working with Thom Collegiate in Regina, the Communications Energy and Paperworkers (CEP) Union Local 649, the Saskatchewan Institute of Applied Science and Technology (SIAST), and the Saskatchewan Labour Force Development Board, we launched a pilot project in 2003 called the Trades N' Training Program (TNT). Work placements for Grade 10 Thom Students will provide them with practical, hands-on training in our trades areas, and will complement their math and science courses. Our goal is to encourage these future leaders to stay in school, to stay in Saskatchewan, and to prepare themselves for future careers at SaskEnergy/TransGas.

Internally, we're training our existing workforce through a number of developmental programs that tap into the knowledge, experience and growth potential of our people. In addition to a wide array of annual developmental programs, we also offer the Supervisory Tools and Techniques Program to all Supervisors in the company to grow their skills. As the next natural step in the progression of leadership training following the basic Leadership Development Program (LDP), SaskEnergy also offers a Leadership Excellence Program (LEP). In 2003, SaskEnergy graduated its first LEP class: nine SaskEnergy/TransGas employees who embarked on a two-year succession program to hone their leadership skills and ready themselves for the future through practical training and tools. Participants focused on assessment, feedback, coaching and customized learning plans.

## ENERGIZING OUR PEOPLE

*For three consecutive years we've invested 1.5% of our total payroll in our people. Our annual people investment ranges from $700 - $1,000 per person, per year.*

We also provide our employees with training experiences outside the company. "Share the Learning," which was launched in 2003, allows SaskEnergy to share its training positions with other organizations on a cost-recovery basis. Five successful pilot projects took place involving four primary groups of stakeholders: Strategic Business Partners and key account customers; other Crowns and government agencies; other businesses; as well as community and non-profit groups. The success of this program has spread rapidly – individuals of 150 companies in Saskatchewan have expressed an interest in participating in future "Share the Learning" opportunities.

Through our Integrated Development Strategy, we provide a framework and focus for people's development activities. This model is intended to show, at-a-glance, the relationships between different types of development encouraged at different levels in the organization.

**Integrated Development Strategy**

| Context, External, Strategic, Targeted ↑ ↑ ↑ Content, Internal, Operational, General | | | | | |
|---|---|---|---|---|---|
| | **Stewardship** (Partnerships, Boards & Governance, Corporate Social Responsibility) | | | | |
| | **Leadership** Leadership Development & Projects | **Technical** Skill Upgrading Apprenticeships | **Business** MBA Entrepreneurship | **Management** Procedures Policies Supervisory Skills | **Cross Functional** Job Rotations Projects |
| | **Business Plan** **Corporate Values, Mission, Vision** Core Skills: orientation, technical, computer/technology, safety/regulatory/compliance | | | | |

### *Diversity a Priority – a Part of Saskatchewan*

Studies and statistical analysis indicate that by the year 2021, about one-quarter of Saskatchewan's population will consist of Aboriginal people[1]. This burgeoning population makes it imperative for SaskEnergy to help bridge the employment and education gap that exists for many Aboriginals, while helping their businesses and communities thrive.

In 2003 SaskEnergy celebrated the 10th year of its Aboriginal Relations Strategy – 10 years of working directly with First Nations people to address their current and future needs. Over the past decade we have achieved a number of accomplishments both internally and externally.

Beginning with SaskEnergy's First Nations and Métis policy, we've identified the need for the Aboriginal community of Saskatchewan to be an integral stakeholder in the Province's economic growth and development. During the past 10 years we have encouraged and fostered partnership development in three strategic areas:

**Employment** – helping Aboriginal people become full partners in the sharing of economic wealth, helping them to become self-sufficient.

**Education and Training** – assisting Aboriginal people as they gain the skills necessary to help plan the future direction of the province.

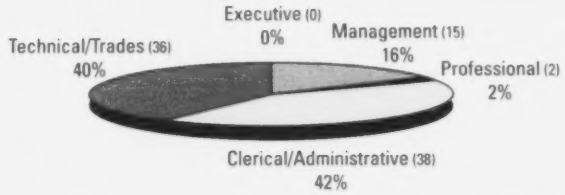
**Business Development** – facilitating, promoting, and encouraging partnership agreements with the Aboriginal business community, which will foster Aboriginal entrepreneurship and create new opportunities for our company to do business with Aboriginal-owned companies.

[1]Source: Federation of Saskatchewan Indian Nations.

## ENERGIZING OUR PEOPLE

On the employment side, in 1993, SaskEnergy's known Aboriginal employee workforce (self-declared) was less than 1% - disproportionate to the number of Aboriginal workers in a province whose total Aboriginal population was estimated at 170,000. In 2003, we made some significant strides in this area – 9% of our skilled workforce were self-declared Aboriginal men and women working in a number of areas throughout the company.

**ABORIGINAL REPRESENTATION BY AREA OF SASKENERGY/TRANSGAS**




Our Aboriginal Management Development Program (AMDP) is one initiative that has helped us increase Aboriginal representation in SaskEnergy's workforce. AMDP provides qualified and experienced Aboriginal people access to our corporate management learning opportunities. To date, more than 20 employees have completed this program, and more than 30% have been retained with SaskEnergy/TransGas.

*"Despite emerging concerns about Saskatchewan's Aboriginal population and the need to take action, there are few models that think forward to the future. The SaskEnergy partnership model embraces the concept of building strong Saskatchewan communities."*

*– Grand Chief Gary Merasty, Prince Albert Grand Council.*

Although it's critical for SaskEnergy to ensure Aboriginal people are represented in our workforce, we have been just as committed to Aboriginal business development and community investment. SaskEnergy's Supplier Development department focuses on the Aboriginal community as a business partner by providing opportunities to Aboriginal suppliers, employees and subcontractors. At the end of 2003, about 18% of SaskEnergy/TransGas contracts contained Aboriginal content.

Marking a milestone for SaskEnergy, the Aboriginal Government Employees Network (AGEN) presented our company with an Industry award in the Fall of 2003. AGEN lauded a number of our accomplishments, including: integrating Aboriginal employees into our workforce; awarding business contracts to Aboriginal companies; developing the SaskEnergy Aboriginal Government Employees (SAGE) Network to provide a supportive workplace environment; and supporting a number of policy and partnership-focused Aboriginal community events.

# ENERGIZING OUR PEOPLE

*Although we exceeded on almost all of our other diversity hire targets, we will do more. Our objective is to hire more Women, People with Disabilities and Visible Minorities by developing employment and training opportunities with local organizations. A representative workforce is our overall goal.*

As SaskEnergy moves into its second decade of building its Aboriginal Relations strategic direction, the challenge is to integrate the goals of Saskatchewan's Aboriginal communities within our company's strategic plan. Although SaskEnergy has made some significant strides towards a representative Aboriginal workforce, there is definitely room for improvement. Considering the less than 2% annual turnover rate at SaskEnergy/TransGas, we face some difficulty in meeting our diversity hiring targets. However, in time this will change as more of our workforce begins retiring.

## *A Health and Safety Culture*

Lost Time Injuries (LTIs) declined in 2003. In fact, SaskEnergy/TransGas experienced only 8 LTIs in the second and fourth quarter 2003 – the lowest in the company's 15 year-history, and a 55% decrease over the injuries reported in 2002. This success can be attributed to our safety programs, committees and most of all our employees who make health and safety a priority 365 days a year.

*In support of the First Nations University of Canada, Doug Kelln, Vice-President of SaskEnergy's Distribution Utility (right), presents a cheque to Wes Stevenson, Acting President of the University.*

lowever, progress is necessary with respect to our reventable vehicle collisions. In 2003 our employees xperienced 37 preventable vehicle collisions, epresenting a 23% increase over the previous year. Safe riving programs will be introduced in 2004 – recognizing mployees' safe-driving milestones and encouraging the enefits of safe driving benefits for all staff.

enior executives and front-line workers met during the 003 Safety Stand-down Week to discuss the company's ealth and safety priorities. In an open forum encouraging mployee feedback, more than 730 people from across the rovince discussed subjects such as safe vehicle operation, ublic and contractor safety, and compliance training.

**GROW WITH US**

For more information about career opportunities at SaskEnergy, please visit our website at www.saskenergy.com, or call our Human Resources department at (306) 777-9091.

## ENERGIZING SASKATCHEWAN BUSINESS

Last year SaskEnergy purchased more than $31 million of goods and services in Saskatchewan. Whether we're buying pipeline materials, office supplies or corporate clothing, SaskEnergy believes in continuing to support the businesses in the Province. Tammy Michel-Wolfe (below right) and Kevin Campbell administer SaskEnergy's corporate merchandise program.

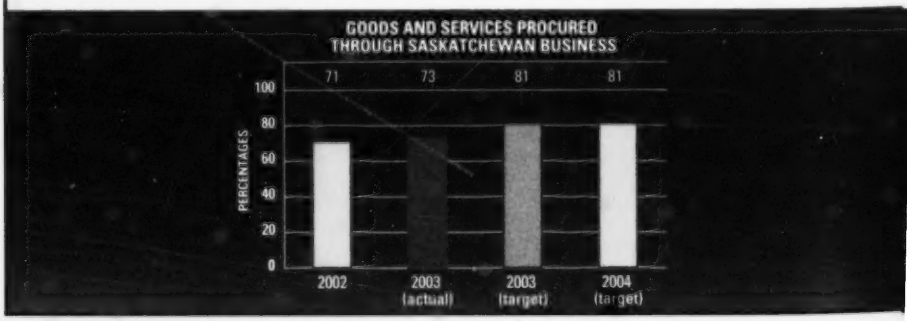
# ENERGIZING SASKATCHEWAN BUSINESS

| STRENGTHENING OUR COMMUNITIES | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Objectives** | **Measures** | **Actual 2003** | **Target 2003** | **Target 2004** | **Target 2005** | **Target 2006** | **Target 2007** | **Target 2008** |
| Demonstrate a philosophy of Corporate Social Responsibility | % Goods/Services Sourced in Saskatchewan | 73% | 81% | 81% | 81% | 81% | 81% | 81% |
| | Awarded Contracts - % Aboriginal Labour Content | 34% | 32% | 32% | 32% | 32% | 32% | 32% |
| Maximize value of goods purchased | Salvage Program Savings | $120,000 | $90,000 | $90,000 | $90,000 | $90,000 | $90,000 | $90,000 |
| | Purchasing Savings | $667,000 | $350,000 | $350,000 | $350,000 | $350,000 | $350,000 | $350,000 |

## *Buying in Saskatchewan*

A successful Supplier Development Program needs to do many things, such as build the economy, boost business, support communities, and grow our company. Sustainability is key. A framework that focuses on long-term benefits and practicality has been the foundation of SaskEnergy's Supplier Development Program, which celebrated its 10-year anniversary in 2003.

Over the past decade we have spent more than $350 million locally on products and services we use every day in our company. Almost 73 cents of every dollar spent with Saskatchewan businesses stayed in Saskatchewan. Our Supplier Development spending was down slightly in 2003 due to a number of specialized projects that adversely affected our overall figures, albeit temporarily.



### *Buying for Saskatchewan*

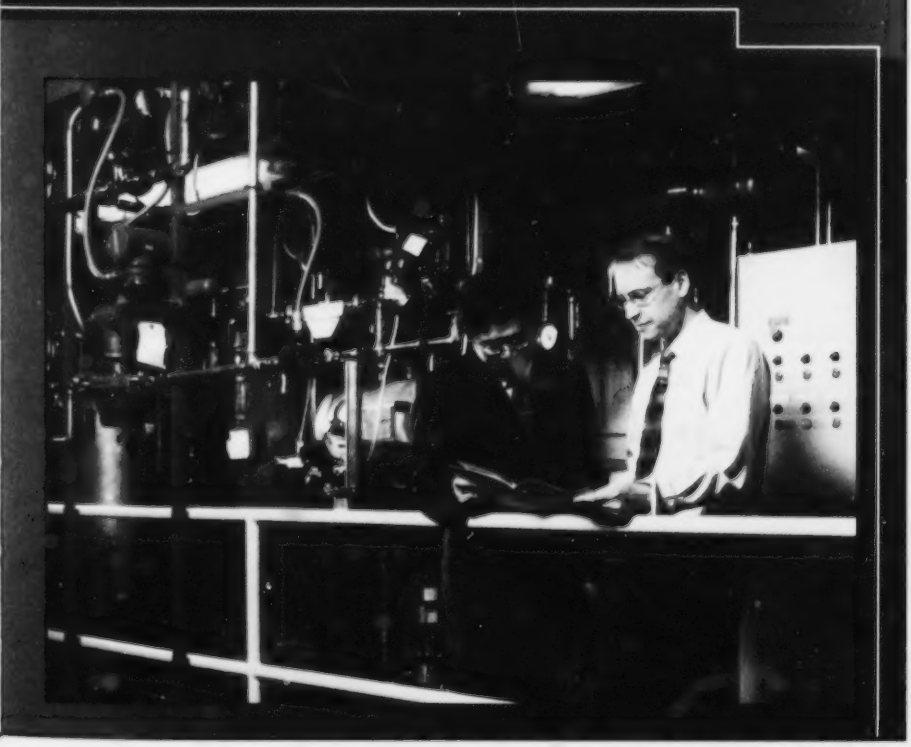
When we buy products in Saskatchewan, we are also buying them for Saskatchewan. Every company that participated in our Supplier Development Program last year helped contribute, in some way, to the local and provincial economy. Whether it was a small firm in rural Saskatchewan or a larger manufacturer in an urban centre, all companies work with us to build a strong economic infrastructure and a better quality of life in this province. In fact, through our Supplier Development Program, we supported about 775 jobs provincially in 2003.

**GROW WITH US**

For more information about becoming a supplier or contractor for SaskEnergy, please call us at (306) 777-9388.

## ENERGIZING THE FUTURE

SaskEnergy can only continue to provide safe and reliable service by protecting the environment now and in the future. Russell Roy from SaskEnergy's Environmental Affairs department (below right) and Dr. Gordon Huang from the University of Regina's Greenhouse Gas Emissions Plant, understand exactly what this level of dedication means. Dr. Huang applauds SaskEnergy's focus on preserving and protecting our environment for future generations and says, "The University of Regina research supported by SaskEnergy provides a vital link between academic studies and the application of new technologies by the industry."



# ENERGIZING THE FUTURE

| STRENGTHENING OUR COMMUNITIES | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Objectives** | **Measures** | **Actual 2003** | **Target 2003** | **Target 2004** | **Target 2005** | **Target 2006** | **Target 2007** | **Target 2008** |
| Incorporate Environmental Stewardship into our business practices | Annual Greenhouse Gas Emission Reduction (tonnes) | 16,450 | 16,500 | 10,000 | 10,000 | 11,000 | 11,000 | 10,000 |
| | Cumulative Greenhouse Gas Emission Reduction (tonnes) | 143,905 | 143,885 | 153,885 | 163,885 | 174,885 | 185,885 | 195,905 |
| | % of Overall 2012 Kyoto Target | 63.1% | 62.5% | 66.9% | 71.2% | 76% | 80.8% | 85.9% |

## *Meeting our Targets*

In 2003, we marked another year of progress in reducing our Greenhouse Gas Emissions (GHGs). Our incremental emission reduction was 16,450 tonnes, bringing us 7% closer to our overall target of reducing our greenhouse gas emissions by the year 2012 to 6% below the levels recorded in 1990. Comparatively, SaskEnergy fares well against other companies that are working to meet their Kyoto targets.

Through emission reduction projects we replaced the blowdown and unit valves at three compressor stations in Piapot, Coleville, and Success, and replaced a natural gas powered instrument system in Regina with a compressed air system. As a result, about 15,500 tonnes of $CO_2$ were reduced. We also purchased emission-free power, which helped reduce our indirect greenhouse emissions by about 950 tonnes.

On the natural gas distribution side of our business, we successfully implemented a new approach to managing natural gas consumption in our line heaters at town border and city gate stations. Preheating is required at these locations to avoid freeze-offs that typically occur when natural gas cools and pressure is reduced. In 2003, SaskEnergy worked with Cold Weather Technologies of Lloydminster to develop and install new line heater technology that has the potential to generate a 50% saving in annual fuel gas consumption. Overall, the Line Heater Program has an annual operational impact of more than $2 million.

Our environmental plans for 2003 also included producing a formal environmental report for the public. Instead we began developing a Corporate Social Responsibility action plan that, in 2004, will provide enhanced disclosure on our environmental accomplishments and shortcomings.

### *Taking Our Commitment to the Next Level*

Pollution that's not created does not have to be managed. It's a simple idea that's easily applicable to our everyday business. We adopted a preventative approach in 2003, developing some strategies to improve our economic, environmental and social performance.

## ENERGIZING THE FUTURE

For example, our "Pollution Prevention" program looks at where waste is generated, and how best to eliminate or reduce it at the source. In 2004, SaskEnergy will explore seven common pollution prevention opportunities: material substitutions; product design or reformation; equipment or process modifications; spill and leak prevention; on-site re-use, recycling or recovery; improved inventory or purchasing; as well as good operating and training practices.

About 14% of the Province's greenhouse gas emissions are attributed to energy consumption in buildings. Doing our part, SaskEnergy has helped address our lighting, heating, ventilation, air conditioning, and electrical and water consumption to move towards our overall objective. In fact, changes made in lighting since 2002 at SaskEnergy's head office have saved more than $25,000 and helped reduce greenhouse gas emissions and air pollution.

Protecting our habitat is also a priority. In past years we worked with the Burrowing Owl Interpretive Centre in Moose Jaw, and Nature Saskatchewan's six nature sanctuaries, to name a few. Although we originally planned to develop another habitat-protected area at the Prud'homme Compressor Station in 2003, we were unable to meet this objective. However, we will continue to seek out partnerships with groups such as Ducks Unlimited, to help us reach our goals.

### Building Awareness

"EnviroAction Weeks" is a company-wide initiative challenging our employees to meet the company's environmental objectives and increase their own environmental consciousness. SaskEnergy's North Battleford District won the 2003 competition. Some of the projects they undertook were: converting to fluorescent light bulbs; installing programmable thermostats; and recycling batteries, ink cartridges and old cell phones. Participants also encouraged staff to look beyond the workplace and incorporate some of these practices into their own homes.

In recognition of their achievements, the North Battleford District received a $1,000 cheque to support a local environmental initiative of their choosing. In turn, they offered the funds to the Battlefords Wildlife Federation's Nature Interpretive Centre.

### Looking for Tomorrow's Natural Gas . . .

Fifty years ago, wood, coal and hot-water boilers were the dominant heating fuel choices in Saskatchewan. Today, it is natural gas. Fifty years from now, the picture may be different.

*Naly Rasmussen (left) from SaskEnergy's Environmental Affairs Department presents the 2003 "EnviroAction Week" award to Cheryl McLean and Denise Baker, of North Battleford's Safety, Health and Environment (SHE) Committee.*

## ENERGIZING THE FUTURE

SaskEnergy is planning to be part of tomorrow's energy picture today, by examining future alternative sources of heating which build on our core expertise in natural gas. With an investment in these new initiatives in 2004, we're determining how prototype fuel inputs such as forestry residues and animal wastes may be part of the energy world of the 21st century.

The fact that only about 30% of a tree is used in actual pulp and paper production operations is driving research into synthetic gas production. The technology is based on the principle that wood waste can be converted into methane, which subsequently could be used as a core component in the production of synthetic gas. This could potentially be "cleaned and purified" for transport by our pipeline network.

The Saskatchewan Research Council is currently examining this technology and SaskEnergy will closely examine its product quality and feasibility.

A technology which has advanced further down the road to commercialization, but which still presents some obstacles, is electrical and gas cogeneration. Cogeneration is the simultaneous production of electricity and useful heat from the same fuel or energy. Facilities with cogeneration systems use them to produce their own electricity, and use the exhaust heat for process steam, hot water heating, space heating, and other thermal needs. They may also use excess process heat to produce steam for electricity production.

SaskEnergy has conducted several trial cogeneration initiatives, focusing on both the health sector and in the oil field sector, where gas too far from the transmission system is currently "flared" to the atmosphere. The capital costs and needs for associated back-up power systems are a barrier to cogeneration in the health sector. Meanwhile, flare gas cogeneration possibilities are financially feasible, but as revealed by SaskEnergy's microturbine pilot project at Carlyle, reliability and service issues associated with the technology need to be addressed before further commercialization occurs.

It is clear that patience and time will be required as SaskEnergy pursues technologies which may someday join natural gas in our line of business. We are moving in the same direction as the forefathers of Saskatchewan's natural gas system. Those pioneers not only looked at the possibilities of today, but the opportunities of tomorrow. Our search for viable and commercial new energy sources which are renewable, use existing waste products and help protect our environment, parallels their pioneering work.

*Since October 2002, SaskEnergy has participated in a cogeneration pilot project at the Regina General Hospital. As two 60-kilowatt microturbines (pictured here) burn natural gas at the hospital, they simultaneously generate enough heat to supply the equivalent of 50 homes, and enough electricity to meet the needs of approximately 40 households.*

## GROW WITH US

**If you have any interesting ideas on how SaskEnergy can protect the environment, please send us an e-mail at webmaster@saskenergy.com, or call our Environmental Affairs department at (306) 777-9368.**

Annual Report 2003

# the energy to deliver

SaskEnergy

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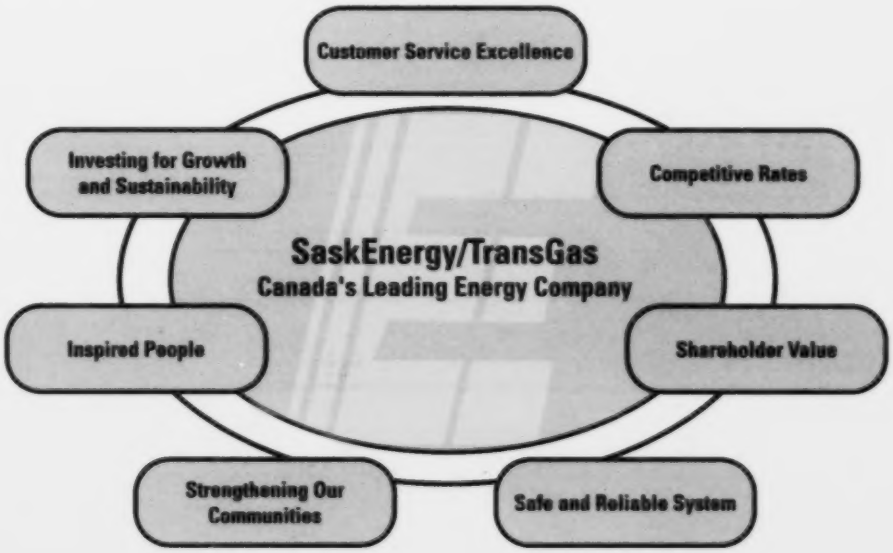
For additional copies of this year's annual report,
please call SaskEnergy at (306) 777-9378 or visit our website.

**This is part of a three-book set consisting of the Annual Report 2003,
nent's Discussion and Analysis 2003 and Corporate Social Responsibilty Report 2003.**

SaskEnergy

## THE ENERGY TO LEAD

As a Crown corporation, we have a vision – and an obligation – to achieve core business excellence for the benefit of the Province and its residents. To fulfill this vision, we focus our business plan on seven strategic mandates which drive every aspect of our business:




These strategic mandates play a crucial role in our business planning, but they play an equally important role in our business *reporting*. Each year, we comprehensively measure, report and set targets for all aspects of our business according to the highest benchmarks possible – those which we set for ourselves in order to become Canada's leading energy company.

## SAFE AND RELIABLE SYSTEM

| Objectives | Measures | Actual 2003 | Target 2003 | Target 2004 | Target 2005 | Target 2006 | Target 2007 | Target 2008 |
|---|---|---|---|---|---|---|---|---|
| SaskEnergy/TransGas will operate a natural gas delivery system that meets customer expectations and achieves industry standards for public safety and reliability. | SaskEnergy - Unplanned outages per 1000 customers | 2.2 | 3.5 | 3.0 | 3.0 | 2.5 | 2.5 | 2.0 |
| | TransGas - Unplanned outages per year | 3.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| | SaskEnergy - Contacts with pipeline per 1000 kilometres of pipe | 2.7 | 3.0 | 2.8 | 2.6 | 2.5 | 2.5 | 2.4 |
| | TransGas - Contacts with pipeline per year | 3.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| | Percentage of the time SaskEnergy responds to safety-related incidents within one hour | 98 | See note 1 | 98 | 98 | 98 | 98 | 98 |

## SHAREHOLDER VALUE

| Objectives | Measures | Actual 2003 | Target 2003 | Target 2004 | Target 2005 | Target 2006 | Target 2007 | Target 2008 |
|---|---|---|---|---|---|---|---|---|
| Provide risk adjusted returns to the shareholder and grow enterprise value. | **Annual Return to the Shareholder** (excluding GCVA effects)[2] | | | | | | | |
| | Consolidated Net Earnings from Operations ($ millions) | 68 | 51 | 67 | 62 | 59 | 59 | 60 |
| | TransGas Rate of Return on Equity | 14.4% | 10.6% | 11.0% | 11.0% | 11.0% | 11.0% | 11.0% |
| | SaskEnergy Rate of Return on Equity | 9.9% | 10.5% | 10.5% | 10.5% | 10.5% | 10.5% | 10.5% |
| | **Annual Return to the Shareholder** (including GCVA effects) | | | | | | | |
| | Pay Dividend to Crown Investments Corporation ($ millions) | 27 | 53 | 66 | 49 | 38 | 38 | 39 |
| | **Financial Condition** (including GCVA effects) | | | | | | | |
| | Consolidated Debt-to-Equity Ratio | 72/28 | 70/30 | 72/28 | 69/31 | 68/32 | 66/34 | 64/36 |

* Objectives for the Strengthening Our Communities strategic mandates are found in the charts on pages 4, 10, 20 and 24 of the Corporate Social Responsibility Report. Objectives for the Inspired People strategic mandates are found on page 10 of the Corporate Social Responsibility Report.

[1] The formal target in this area was established beginning in 2004.

[2] For additional information on the Gas Cost Variance Account (GCVA), refer to the Critical Accounting Policies and Estimates on page 16 of the Management's Discussion and Analysis.

# SASKENERGY INCORPORATED THE BALANCED PERSPECTIVE*

## COMPETITIVE RATES

| Objectives | Measures | Actual 2003 | Target 2003 | Target 2004 | Target 2005 | Target 2006 | Target 2007 | Target 2008 |
|---|---|---|---|---|---|---|---|---|
| Provide fair and competitive rates, balancing stability with market responsiveness. | Achieve the lowest weighted average cost of gas among the major Canadian utilities | 2nd lowest | lowest | lowest | lowest | lowest | lowest | lowest |
| | Maintain highly competitive transportation and storage rates | | | | | | | |
| | TransGas/Alberta export transportation rate comparison | Lower than Alberta system | Lower than Alberta system | Lower than Alberta system | Lower than Alberta system | Lower than Alberta system | Lower than Alberta system | Lower than Alberta system |
| | Competitive storage rates - % capacity contracted | 100 | 100 | 100 | 100 | 100 | 100 | 100 |

## CUSTOMER SERVICE EXCELLENCE

| Objectives | Measures | Actual 2003 | Target 2003 | Target 2004 | Target 2005 | Target 2006 | Target 2007 | Target 2008 |
|---|---|---|---|---|---|---|---|---|
| Provide strong relationships with customers and enhance customer choice. Ensure employees have time, tools and training to deliver customer service excellence. | Percentage customer satisfaction with service reliability | | | | | | | |
| | SaskEnergy | 90 | 85 | 85 | 85 | 86 | 87 | 87 |
| | TransGas | 90 | 85 | 85 | 85 | 86 | 87 | 87 |
| | Percentage of TransGas customer connections in less than 90 days | 50 | 95 | 95 | 95 | 95 | 95 | 95 |
| | Percentage of customers using e-business tools | | | | | | | |
| | SaskEnergy | 9 | See note 1 | 20 | 25 | 25 | 30 | 35 |
| | TransGas | 88 | 90 | 90 | 95 | 95 | 95 | 95 |

## INVESTING FOR GROWTH

| Objectives | Measures | Actual 2003 | Target 2003 | Target 2004 | Target 2005 | Target 2006 | Target 2007 | Target 2008 |
|---|---|---|---|---|---|---|---|---|
| **Growth:** Increase net income by $11 million by 2008 by investing in opportunities that take advantage of our skills and competencies in the natural gas business. **Sustainability:** Commit capital investment to Saskatchewan to ensure the long-term sustainability and integrity of the core business infrastructure. | Investing in Saskatchewan - Growth ($ millions) | | | | | | | |
| | Invest in new transportation, storage and delivery infrastructure | | | | | | | |
| | TransGas Capital Expenditures | 24 | 15 | 35 | 27 | 14 | 17 | 9 |
| | SaskEnergy Capital Expenditures | 11 | 11 | 13 | 10 | 10 | 10 | 10 |
| | Investing in Saskatchewan - Sustaining ($ millions) | | | | | | | |
| | Invest in infrastructure to sustain and maintain a safe and reliable distribution/transmission system | | | | | | | |
| | TransGas Capital Expenditures | 17 | 22 | 21 | 20 | 19 | 18 | 19 |
| | SaskEnergy Capital Expenditures | 22 | 19 | 19 | 19 | 22 | 18 | 18 |
| | Investing for Saskatchewan ($ millions) | | | | | | | |
| | Total Equity Invested (cumulative) | | | | | | | |
| | Gas Sur | 13.6 | 13.9 | 13.6 | 13.6 | 13.6 | 13.6 | 13.6 |
| | Igasamex | 10.7 | 12.9 | 10.7 | 10.7 | 10.7 | 10.7 | 10.7 |
| | Heritage Gas | 2.0 | 5.7 | 5.3 | 8.5 | 9.5 | 9.5 | 9.5 |

## FINANCIAL AND OPERATING HIGHLIGHTS

| CONSOLIDATED FINANCIAL INFORMATION | 2003 | 2002 |
|---|---|---|
| | (millions of dollars) | |
| Delivery Revenue | 165 | 165 |
| Transportation and Storage Revenue | 81 | 68 |
| Other | 71 | 42 |
| Total Revenue | 317 | 275 |
| Operating Expenses | 249 | 243 |
| Net Earnings from Operations | 68 | 32 |
| Loss from Commodity Sales | (27) | (25) |
| Net Earnings | 41 | 7 |
| Dividend | 27 | 4 |
| Total Assets | 1,234 | 1,211 |
| Property, Plant and Equipment – Net | 940 | 921 |
| Capital Expenditures | 78 | 57 |

| OPERATING STATISTICS | 2003 | 2002 |
|---|---|---|
| Distribution Volumes | (Petajoules) | |
| Residential | 33.3 | 33.7 |
| Commercial | 30.1 | 30.2 |
| Farm | 3.5 | 3.4 |
| Industrial | 69.6 | 59.5 |
| TOTAL | 136.5 | 126.8 |
| Transmission Volumes | (Petajoules) | |
| Domestic | 208 | 199 |
| Export | 146 | 144 |
| TOTAL | 354 | 343 |
| Number of Customers | | |
| Distribution | 325,504 | 323,721 |
| Transmission | 115 | 131 |

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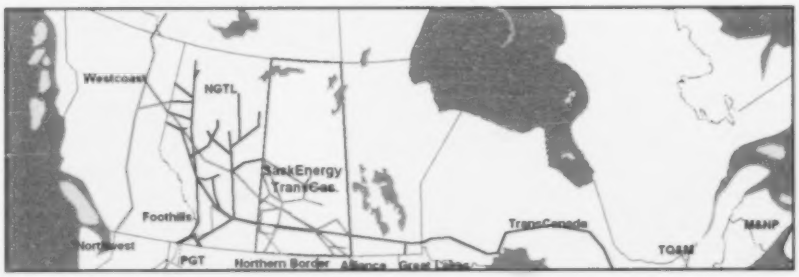
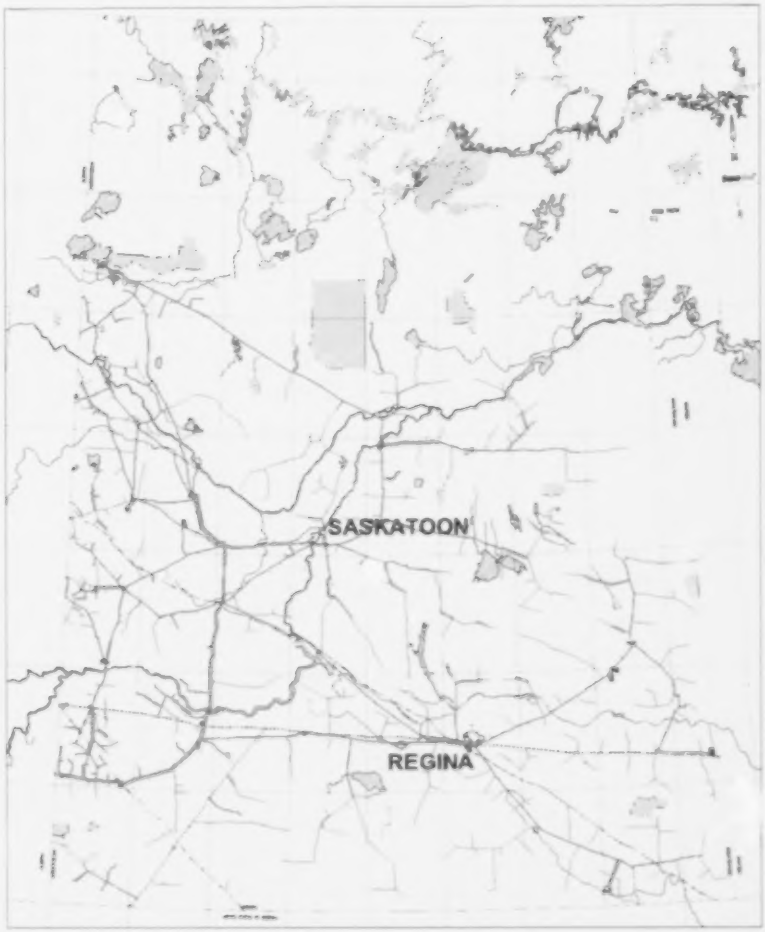
## THE ENERGY TO DELIVER

***Major Natural Gas Pipelines of Canada and the Northern United States***




***SaskEnergy Incorporated Natural Gas Transmission Pipelines***



# LETTER OF TRANSMITTAL

March 31, 2004

The Honourable Dr. Lynda M. Haverstock
Lieutenant Governor
Province of Saskatchewan

May it please Your Honour:

I respectfully submit the Annual Report of SaskEnergy Incorporated for the year ended December 31, 2003, in accordance with *The SaskEnergy Act*. The Financial Statements are in the form approved by the Treasury Board, and have been reported on by the Corporation's auditors.

***Harry Van Mulligen***
*Minister Responsible for SaskEnergy*

Harry Van Mulligen
Minister Responsible for SaskEnergy

## CORPORATE PROFILE

SaskEnergy Incorporated (also referred to as SaskEnergy or the Corporation) is a Saskatchewan Crown corporation governed by *The SaskEnergy Act*. It is a designated subsidiary of Crown Investments Corporation of Saskatchewan (CIC). CIC is also a Crown corporation and operates as the Province's holding company for commercial Crown corporations (such as SaskEnergy, SaskPower and SaskTel) and various commercial investments.

SaskEnergy's corporate structure consists of SaskEnergy (the Crown corporation) plus seven wholly owned subsidiaries as follows:

CROWN INVESTMENTS CORPORATION OF SASKATCHEWAN
SASKENERGY INCORPORATED (Distribution Utility)
TransGas Limited
Transmission and Storage
Many Islands Pipe Lines (Canada) Limited
Interprovincial Transmission
SaskEnergy International Incorporated
Bayhurst Gas Limited
Royalty Interest/ Natural Gas in Storage
Swan Valley Gas Corporation
Manitoba Distribution System
Saskatchewan First Call Corporation
Pipeline Locating Service
SaskEnergy Nova Scotia Holdings Ltd.
50.1% Equity Interest in Heritage Gas Limited
SaskEnergy Chilean Holdings I Ltd.
SaskEnergy Chilean Holdings II Ltd.
SaskEnergy Mexican Holdings Ltd.
SaskEnergy Chilean Holdings Limitada
30% Equity Interest in Chilean Natural Gas Distribution Company Gas Sur S.A. (Gas Sur)
40.1% Equity Interest in Mexican Natural Gas Transmission Company Integrated Gas Services de Mexico, S. de R.L. de C.V. (Igasamex)

SaskEnergy's two major business units are the distribution utility (commonly referred to as the Local Distribution Company or LDC) and the transmission utility (TransGas Limited). The LDC has the exclusive legislated franchise to own and operate the natural gas distribution utility within the Province of Saskatchewan. The Provincial Cabinet regulates its rates.

TransGas Limited (TransGas) has the exclusive legislated franchise to own and operate the natural gas transmission business within the Province of

Saskatchewan. It also owns and operates a non-regulated natural gas storage business that is integral to the transmission pipeline system. TransGas' transmission rates are subject to Provincial Cabinet approval. TransGas has a Customer Dialogue process where business, operational and rates matters are openly discussed with a representative group of customers.

SaskEnergy International Incorporated (SEII) was created in 1996 to market SaskEnergy's world-class expertise and investigate opportunities to invest in emerging natural gas distribution, transmission and storage systems. SEII's primary focus is Latin America, one of the fastest-growing natural gas markets in the world. SEII holds a 30% equity investment in Gas Sur S.A., a natural gas distribution company in Chile, as well as a 40.1% equity investment in Igasamex USA Ltd., which owns a natural gas transportation company in Mexico.

Many Islands Pipe Lines (Canada) Limited (MIPL) owns 11 transmission pipeline interconnections to Alberta, two into the United States, and one into Manitoba. The National Energy Board regulates MIPL.

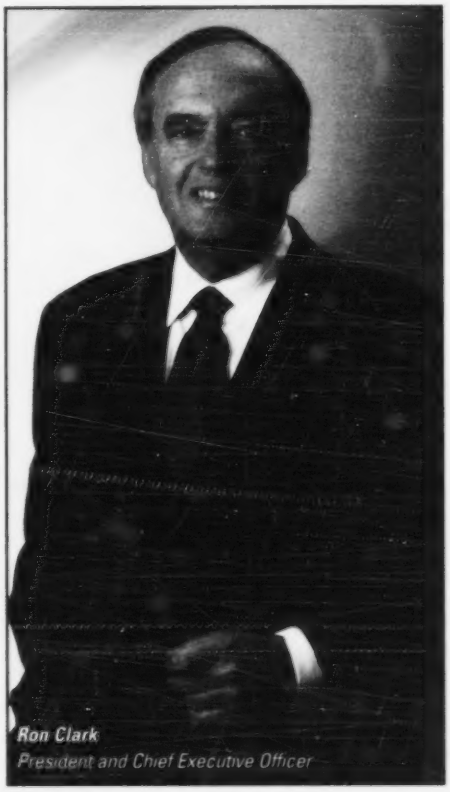
Bayhurst Gas Limited (Bayhurst) owns a gross overriding royalty on approximately 450 properties in Saskatchewan and Alberta. Bayhurst also owns, produces and sells natural gas from its properties in the Beacon Hill area of Saskatchewan.

Swan Valley Gas Corporation (SVGC), formed in 2000, owns a natural gas distribution utility in the Swan Valley area in western Manitoba. The Manitoba Public Utilities Board regulates SVGC.

Saskatchewan First Call Corporation (*Sask 1st Call*) was established primarily for safety reasons to maintain a database of oil, gas and other pipeline systems. *Sask 1st Call* provides a service whereby landowners and other stakeholders may contact *Sask 1st Call* to determine the location of pipeline facilities. In 2003, *Sask 1st Call* expanded its capability to provide its services to non-pipeline-related entities.

SaskEnergy purchased a 50.1% equity interest in Heritage Gas Limited (Heritage Gas) in 2002. In 2003, Heritage Gas accepted the natural gas distribution franchise to deliver natural gas service to six counties in Nova Scotia.

# PRESIDENT'S MESSAGE



*Ron Clark*
*President and Chief Executive Officer*

If past years' annual reports were devoted to advocating our need to grow beyond our core business by investing in and for Saskatchewan, then 2003 should be celebrated as a year in which we have realized significant results for our shareholders, our customers and our employees.

The achievements of the year cut across all our operating units and speak to the tremendous vibrancy of our business:

- A record volume of natural gas was received by the TransGas transmission network, propelled by the connection of the Shackleton reserve area in the southwest corner of the Province, where production is expected to exceed 120 Terajoules per day (TJ/day) by mid-2004. Shackleton is now projected to represent nearly 15% of the total daily natural gas production in Saskatchewan. An all-time production level of 766 TJ/day for Saskatchewan field receipts was achieved on December 23.

- The successful launch and growth of *Sask 1st Call*, which in its initial year handled close to 50,000 facility locate requests on behalf of its 12 member companies and which is now poised to offer these services to other businesses, Crown corporations, utilities and municipalities.

- The arrival of profitability in our first two international investments in Chile and Mexico, with continuing growth in their customer bases and appreciation in enterprise value – value which will exceed $200 million over the next 15-20 years.

- The launch of Heritage Gas in Nova Scotia. This distribution utility, a joint venture with Scotia Investments and AltaGas Services Inc., will capitalize on one of the last greenfield natural gas distribution opportunities in North America.

- The return of superior financial performance, with a net income of $68 million before the accounting treatment of our Gas Cost Variance Account, and with projected profits remaining stable at close to $60 million annually through to 2008. Furthermore, at a time when both the corporate sector and governments in virtually every jurisdiction are challenged by debt conditions, SaskEnergy/TransGas improved its debt/equity ratio from 73/27 to 72/28.

The past year demonstrated that we have the "energy to deliver" – that our approach to reasoned, pragmatic growth in our areas of core competency is working. We employ some of the most highly skilled and talented natural gas employees anywhere in Canada. At the same time, Management has balanced the constant need to provide safe, reliable and cost-competitive service to our distribution and transmission customers with the necessity of growing beyond our core business.

While Saskatchewan people understandably tend to view Crown corporations from the perspective of customers, they are also shareholders. Shareholders hold companies responsible for increasing the value of the business, and our management knows that this is our fiduciary obligation as well. Even though our mature system gives us limited growth opportunities in our home market, over 95%, or $750 million, of our capital investments over the last decade have been here in Saskatchewan. We've enjoyed some tremendous successes – our $17 million investment in the Shackleton infrastructure, for instance, has helped make Saskatchewan one of the limited number of jurisdictions in North America where natural gas supply is actually increasing. Our $35 million multi-year storage development near Asquith provides the same sort of opportunity to realize financial returns while serving the needs of our customers here in Saskatchewan.

But it would be imprudent and short-sighted to limit our involvement to business opportunities within our borders, particularly given our system's maturity. Just as we have been able to execute financially successful projects in Saskatchewan, so have we in Chile and Mexico, through exciting opportunities with solid partners in new markets where natural gas is gaining an increasing foothold. We plan the same philosophy for success with our new distribution business in Nova Scotia – patient capital, hard work, diligence and the will to succeed.

We are reiterating our view that through these new investments, by 2008 we will be able to bring back to Saskatchewan an additional $4.5 million in annual profitability. It is my hope that as the discussion over the merits of extra-provincial investment continues, more focus will be given to the actual performance of these investments themselves.

## PRESIDENT'S MESSAGE

Our business continues to be challenged by the volatile state of natural gas markets. Even though natural gas remains a competitive fuel source, the move to a new band of pricing in the $5 to $7 (Canadian) per Gigajoule (GJ) range has hastened the move to higher-efficiency equipment on the residential level, softened sales of non-traditional natural gas appliances, and in some cases resulted in fuel switching. At a time when we are focusing greater energies on educating consumers about managing their consumption, we are also helping customers understand the lifestyle and environmental benefits natural gas provides.

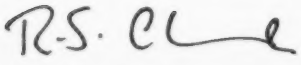
A parallel challenge to higher natural gas prices is the aging of our distribution and transmission infrastructure in Saskatchewan. Accordingly, we continue to put more effort into ensuring system safety and reliability, with over $16 million – close to one-quarter of our transmission and distribution capital expenditures – dedicated to system improvements and infrastructure integrity in 2003. We take this issue very seriously and regard ourselves as leaders in North America in developing and sharing best practices in the area of pipeline safety and risk management. When the Provincial Auditor asked us to begin substantively reporting on our integrity practices in 2002, we devoted a special segment of the Annual Report to this issue. We have continued this practice in the 2003 Annual Report with the section beginning on page 36.

I also hope you will take the time to read our fifth annual Corporate Social Responsibility (CSR) Report. As one of more than 90 major Canadian companies now publicly reporting on CSR, SaskEnergy is very proud of its tradition of community involvement, employee volunteerism, environmental sustainability and progressive and inclusive human resources policies. We believe that as a company doing business in the Province, we are committed, through both our words and our deeds, to make Saskatchewan a better place to live, work and raise families. The recent success of the 2003 Grey Cup in Regina, where more than 150 of our employees volunteered their time in various capacities, illustrates the unique culture we are fortunate to enjoy both in SaskEnergy and in Saskatchewan communities as a whole.

As I enter my 10th year as SaskEnergy's President and Chief Executive Officer, it is appropriate that I should conclude this year's message by recognizing the many individuals who have made the challenge of leading this diverse business a satisfying and successful experience. To our talented Board of Directors, to our senior management team, to the outstanding team of men and women who work so diligently every day at SaskEnergy and TransGas, and most importantly, to the more than 325,000 customers whom we have the privilege to serve, I say a heartfelt word of thanks.

Our business is natural gas, but the success of any good year, like 2003, is all about people and the effort they make every day. Your contributions may be largely unsung, but I assure you, they are never far from my mind. After all, it is you who ultimately gives us "the energy to deliver."

Sincerely,



Ronald S. Clark
President and Chief Executive Officer

## DELIVERING ON OUR INVESTMENTS

With record drilling of almost 2,300 natural gas wells and the highest-ever production levels, Saskatchewan's natural gas industry had a robust year in 2003. While natural gas supplies grew tighter and prices rose across North America, the developing Shackleton Reserve Area helped Saskatchewan become a relative rarity – one of the few jurisdictions on the continent where proven natural gas reserves are likely to have increased over the last year. And as Saskatchewan's natural gas industry began to deliver as never before, SaskEnergy and TransGas were delivering as well – on capital investment to sustain and grow our business in the Province, and on profitable extra-provincial investments to secure our future for the people of Saskatchewan.

*Danny DeBolt, Gas Construction Foreman (left), and Dave Pahl, Superintendent of Pipeline and Storage Engineering (right), oversee pipeline construction in the Shackleton Reserve Area, October 2003.*

# DELIVERING ON OUR INVESTMENTS

*In September 2003, Phase Two of the Shackleton project began with the looping of an existing 21 kilometres of eight-inch pipeline and the construction of an additional 21 kilometres of eight-inch pipeline. This will increase the capacity of TransGas' receipt system and at the same time allow producers to move their natural gas to market from one of the most significant reserve areas to be discovered in Saskatchewan in the last 10 years.*

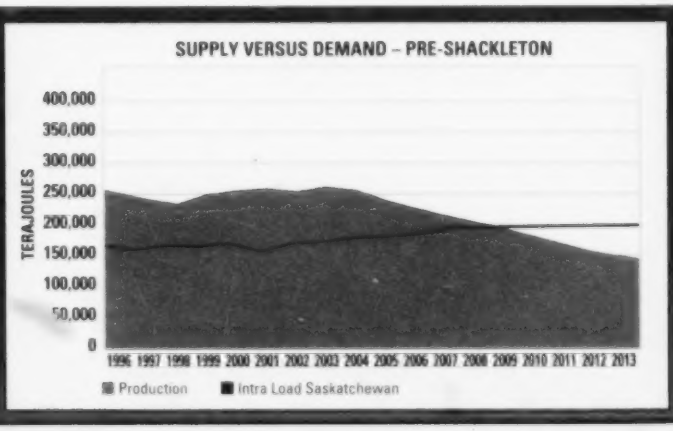
## *Showing the Value of Saskatchewan Capital Projects*

As production declines from many traditional natural gas deposits in the Western Canadian Sedimentary Basin, one word has captured the imagination of the western-Canadian natural gas industry – Shackleton.

At the end of 2002, 60 Terajoules/day (TJ/day) were flowing from the Shackleton area near Swift Current, and by early 2003, TransGas' initial pipeline capacity was fully contracted by customers. With production exceeding even the most optimistic of industry expectations, TransGas invested an additional $6 million in two capital projects designed to expand pipeline service from the Shackleton area, bringing the cumulative investment to $17 million.

Together, these projects will add a total of 98 TJ/day of capacity to TransGas' system. At that level of activity, production from Shackleton could easily exceed 120 TJ/day by mid-2004, representing nearly 15% of Saskatchewan's total daily natural gas production.

Increased production from Shackleton, combined with expanded capacity, led to a significant increase in system throughput and revenue in 2003. To share the benefit with its customers, TransGas responded by temporarily reducing its transportation and storage service rates by four per cent for the last five months of the year. By late December, continuing strong throughput on its system allowed TransGas to implement a rate reduction for its customers of two per cent below May 2003 levels for all of 2004.



Saskatchewan natural gas production levels increased by close to 10% over 2002 levels, and an all-time record of 766 TJ/day was set on December 23 for Saskatchewan field receipts on the TransGas system. With this increased production, Saskatchewan remains a net exporter of natural gas. The Province previously was expected to be a net importer of gas by 2007, but with the new Shackleton reserves, that date is now projected to be past 2010. In the current marketplace, every year that Saskatchewan remains a net exporter delivers a benefit in lower gas costs for Saskatchewan consumers.

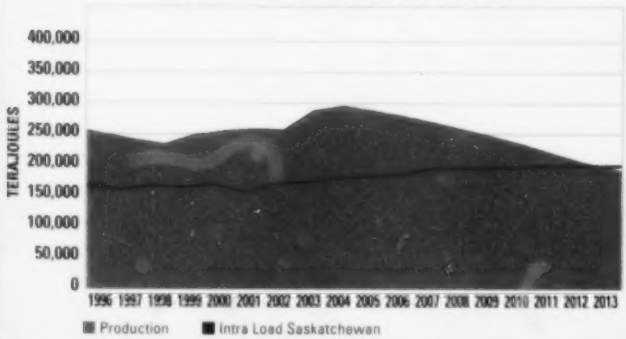
Supported by activity in the Shackleton area, TransGas transmission revenues were $110.5 million in 2003, up 6.0% from 2002.

Because TransGas' $17 million investment in its Shackleton infrastructure has benefits for natural gas producers, the Corporation, and ultimately, end-use customers, it is a clear demonstration of how valuable SaskEnergy and TransGas capital investment – totalling $750 million over the past decade – has been for Saskatchewan.

The successful development of the Shackleton area had the spinoff of increased spending in the Province by various exploration and production companies. Exploration now underway in other areas such as Kamsack and Preeceville could lead to more natural gas reserve discoveries and development over the longer term.

*Saskatchewan contractors have benefited from TransGas' Shackleton investment. In 2003, Carson Welding and Maintenance (pictured here), a Saskatchewan-based company, installed 52 kilometres of four, six and eight-inch pipe in the Shackleton area.*

**SUPPLY VERSUS DEMAND – POST-SHACKLETON**




*By mid-2004, the Shackleton Reserve Area could be responsible for close to 15% of Saskatchewan's total daily natural gas production. Continuing development of the region's reserves and addition of pipeline infrastructure will significantly delay the projected time at which Saskatchewan will become a net importer of natural gas.*

## DELIVERING ON OUR INVESTMENTS

### *Addressing Customers' Changing Needs*

As we expand our transportation system to handle new volumes, our storage business is also growing. Storage caverns allow highly variable heating loads to be met more economically when usage exceeds pipeline system capacity. For example, when a new Saskatchewan peak day consumption record of 1.01 Petajoules (PJ) was established on January 22, the coldest day of 2003, our storage facilities helped deliver gas safely and reliably to Saskatchewan homes and businesses as they have since the late 1950s. But today's usage is also driven by industrial customers, who rely on moving large volumes of gas in and out of storage on an ongoing basis.

In particular, demand has increased over the past few years in the Saskatoon area for two main reasons: the enhancement of natural gas-fuelled electrical generation at SaskPower's Queen Elizabeth Power Station and the construction of a cogeneration facility at the Potash Corporation of Saskatchewan's mine near Cory.

In response to these current needs, and in anticipation of customers' future storage requirements, in August 2003 TransGas announced a three-year project to develop a $35 million natural gas storage facility near Asquith, just west of Saskatoon. The four-cavern facility, created by drilling into and dissolving salt deposits approximately 3,500 feet beneath the earth's surface, will give TransGas 27 operational storage caverns. It will add roughly 3.0 PJ of capacity to the system when completed in the spring of 2006.

*Drilling at the Asquith site began in August, and the first two caverns will be operational in 2005. Each cavern takes approximately 14 months to develop, and will be roughly the size of a 12-storey building. The entire project will be completed by 2006.*

The Asquith caverns will increase our delivery capabilities into the Saskatoon area, and together with our existing storage facilities, will store natural gas for residential, commercial and industrial use during peak winter months.

An expanded storage system also widens our service offerings. It makes producers and marketers more competitive by providing them with the ability to buy, sell and store gas at the most opportune times. Because Saskatchewan is located between major gas-producing areas to the west and large energy-consuming centres in eastern Canada and the United States, investing in our storage infrastructure also enhances our competitiveness and financial position. The demand for TransGas storage service is so great that both existing storage capacity and future capacity at the Asquith facility have been fully contracted by our customers.

*TransGas currently operates storage caverns at Landis, Melville, Moosomin, Prud'homme and Regina (pictured here), as well as storage fields at Unity and Bayhurst. These facilities give TransGas 30 PJ of storage capacity, an amount that will increase by approximately 10% when all four Asquith caverns are operational in early 2006.*

### *Growing Operations across the Province*

The Shackleton and Asquith projects were highlights of SaskEnergy and TransGas' $72.3 million 2003 capital program. Of that amount, $34.5 million was targeted toward growing our operations and serving more customers across the Province.

Higher transport volumes on the TransGas network during the early part of 2003 underscored the importance of investing in the transmission infrastructure. On 26 out of 29 days in February, deliveries approached design capacity by either equalling or exceeding 1.2 PJ/day – a significant accomplishment. This extraordinary period of deliveries was driven not only by Saskatchewan heating demand during the coldest part of winter, but also by growing industrial loads.

**2003 CAPITAL EXPENDITURES (TRANSGAS)**

| COMPONENT | ($ MILLIONS) |
|---|---|
| System Improvements/Pipeline Integrity | 9.1 |
| Transmission Expansion | 12.4 |
| Information Systems | 3.9 |
| Measurement/SCADA Support | 2.8 |
| Storage Development | 11.6 |
| Other Plant | 0.9 |
| **TOTAL** | **40.7** |

## DELIVERING ON OUR INVESTMENTS

Increased natural gas production in the Province over the course of 2003 also influenced TransGas' decision to expand its transmission network. Saskatchewan gas receipts transported by TransGas in 2003 totalled 255 PJ, which represents an annual increase in production of 10% compared to 2002. To accommodate this increased production in the Province and allow producers to get their natural gas to market, in 2003 TransGas constructed 140 kilometres of new pipelines and tied in producers at 12 new production receipt points. While four of these receipt points were in the Shackleton area, eight were at other locations across the Province. By adding these receipt points and expanding three others, TransGas increased its receipt capacity by 84,000 Gigajoules per day (GJ/day) – the equivalent of more than 11% of the existing level of Saskatchewan production.

### *Expanding Customer Base in a Mature Market*

SaskEnergy's distribution business continued to expand its customer base in 2003. Using the community-based model that has added more than 100 communities and over 30,000 customers to the network during the past decade, the Corporation worked with local citizens to distribute natural gas to previously unserved areas of the Province. In total, the distribution utility invested $10.5 million – over one-third of its capital budget – to connect 487 new rural customers, and a net total of 1,783 customers to its network.

**2003 CAPITAL EXPENDITURES (SASKENERGY)**

| COMPONENT | ($ MILLIONS) |
|---|---|
| Customer Connections | 10.5 |
| Information Systems | 7.4 |
| System Improvements | 7.0 |
| Measurement/Tools/Natural Gas Vehicles | 2.5 |
| Other Plant | 4.2 |
| **TOTAL** | **31.6** |

SaskEnergy currently serves 53 of Saskatchewan's 75 First Nations, which represent the most rapidly growing segment of the Corporation's rural distribution customer base. In 2003 SaskEnergy again expanded service in First Nations communities, and 145 new First Nations residential customers across the Province began realizing the economic and environmental benefits of natural gas.

In a mature market where housing improvements and more efficient natural gas equipment have led to an 8.8% decline in average household consumption over the past decade, SaskEnergy is pursuing non-traditional distribution loads. In 2003, two new oilfield connections and 19 new industrial agricultural customers provided a load growth equivalent to 1,554 homes.

*In 2003, the Thunderchild First Nation near Turtleford was our fastest-growing First Nations customer. Approximately 10 new homes on the First Nation received natural gas service, as did a new youth facility and the recently opened Piyesiw Awasis School (pictured here). The proposed construction of a new subdivision in the next few years means that even more of the First Nation's residents will discover the safety, reliability and convenience of natural gas. Says Albert Angus, Band Councillor: "We're looking forward to the future and growing our community and we recognize the value of natural gas in this growth."*

## DELIVERING ON OUR INVESTMENTS

*As part of her Co-op Engineering work term at SaskEnergy in 2003, Laura Scott (pictured here with the Moose Jaw Civic Centre's natural gas-fired desiccant dehumidifier) prepared a report on the operational and economic advantages of desiccant dehumidifiers in Saskatchewan. Based on the successful operation of the Civic Centre's dehumidifier, this technology will now be able to assist other year-round ice rinks in Saskatchewan. With increasing pressure to have cooler and dryer environments in health care facilities, this technology may also benefit hospitals in the Province.*

Another non-traditional distribution load is the natural gas direct-fired desiccant dehumidifier at the Moose Jaw Civic Centre. In late spring and early fall each year, high humidity levels inside the Civic Centre were causing poor ice conditions, poor visibility, and building material degradation to the point that the arena was in danger of soon becoming obsolete. In response to this problem, the City of Moose Jaw committed approximately $2 million over 2002 and 2003 to renovate the Civic Centre. These renovations included installing the first natural gas direct-fired desiccant dehumidifier in Saskatchewan – a trial project to which SaskEnergy contributed $15,000 of the $60,000 total cost.

The desiccant dehumidifier will provide substantial benefits to the Civic Centre. Over the long term, it will help extend the facility's lifespan by another 20 years. And in 2003 – the dehumidifier's first full year of operation – the improved air quality benefited all users, from recreational skaters to hockey players and spectators. These types of innovative investments contribute to the cost-effectiveness and competitiveness of our customers' operations.

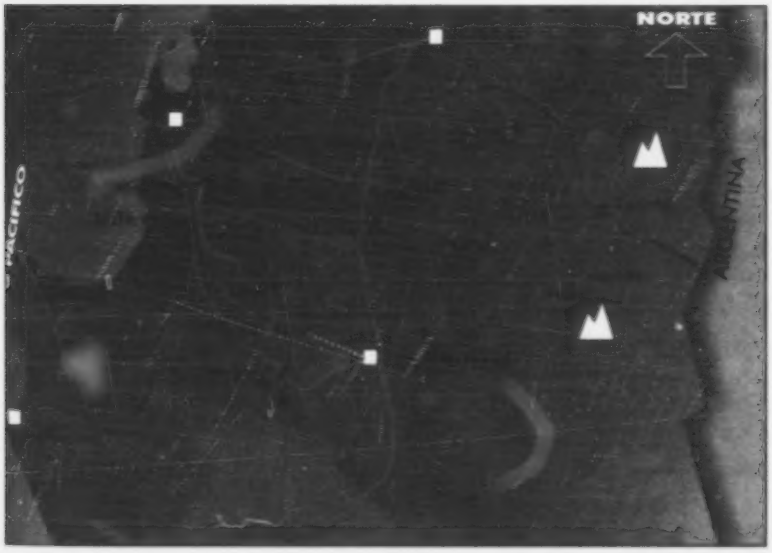
### *Extra-Provincial Investments Are Profitable*

Growing our business outside Saskatchewan's relatively mature natural gas marketplace is imperative to ensure SaskEnergy's future strength and stability and to protect and create jobs within the Province.

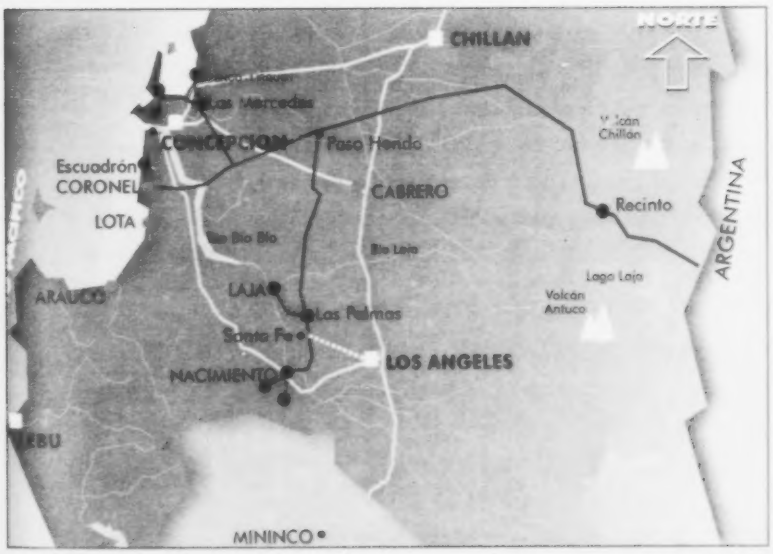
To capitalize on natural gas-related business opportunities abroad, SaskEnergy International Incorporated (SEII) was formed in 1996 as a wholly owned subsidiary. Since 1999, SEII has invested in two Latin American companies, and in 2003 these investments reached profitability.

SEII has a 30% equity interest in Gas Sur S.A. (Gas Sur), a Chilean natural gas distribution company which reported a net income of $0.4 million for 2003. By year's end, Gas Sur had approximately 24,000 distribution customers and had distributed almost 19 million cubic metres of natural gas.

More importantly, Gas Sur is poised for significant growth going into 2004. Over the course of 2003, the company added approximately 3,500 customers to its network, and late in the year began construction of a pipeline into Los Angeles, a Chilean city with a population of 165,000.




*Gas Sur's distribution network is expanding through the eighth region of Chile. In early 2004, service will be extended to the city of Los Angeles, as indicated by the yellow dotted line.*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Río Laja
ARGENTINA
Lago Laja
LAJA
ARAUCO
Volcán Antuco
Las Palmas
Santa Fe
LOS ANGELES
NACIMIENTO
MININCO

## DELIVERING ON OUR INVESTMENTS

This gives the company access to another large potential customer base as it promotes natural gas as a safe, convenient and cost-effective alternative to propane, the traditional fuel of choice in the Chilean marketplace. Given these factors, Gas Sur is expected to have an annual profit of approximately $1.3 million in 2004.

SEII's other Latin American investment has reached profitability even faster. In two transactions, one in March 2002 and one in June 2003, SEII acquired a 40.1% equity interest in Integrated Gas Services de Mexico, S. de R.L. de C.V. (Igasamex), a Mexican natural gas transportation company. At the end of 2003, Igasamex was flowing gas to 68 industrial customers on 18 laterals, and recorded a net income of $1 million.

The rapid success of Igasamex is not surprising given that the company provides service to a wide range of textile, automotive, food processing, and pulp and paper companies in Mexico's dynamic industrial sector. With the construction of three laterals in late 2003, 17 customers were added to the system. Igasamex expects to be serving approximately 100 customers by 2005, and the company's profit projection is $1.1 million for 2004.

### *Delivering Natural Gas to Nova Scotia Customers*

As SEII's investments came of age, SaskEnergy embarked on its most ambitious extra-provincial investment yet – one that will apply the Corporation's 50 years of providing natural gas service in Saskatchewan to the greenfield market of Nova Scotia.

*Many of Igasamex's customers have names familiar to Saskatchewan residents, such as Lee Jeans and Colgate/Palmolive. In 2003, the Toyota factory near Tijuana (pictured here) became one of Igasamex's new customers.*

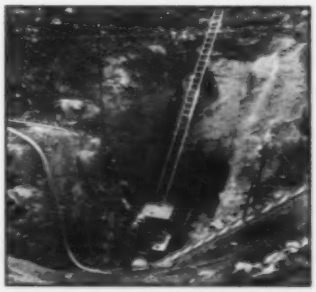
In June 2003, Heritage Gas Limited (Heritage Gas) – a company in which SaskEnergy holds a 50.1% interest and Scotia Investments and AltaGas Services together own a 49.9% interest – accepted a 25-year franchise to distribute natural gas to six Nova Scotia counties.

On December 20, Heritage Gas commissioned the first section of its natural gas distribution system in Dartmouth's Burnside Industrial Park. For the first time ever, Nova Scotia residents began using natural gas when it began flowing to the Crichton Park residential area of Dartmouth in early 2004. This success was in part a testament to the talent and versatility of the SaskEnergy employees from several business units whose expertise guided the Heritage Gas project in its early stages.

Heritage Gas plans to invest up to $120 million in its infrastructure over the first seven years, dependent on customer interest. SaskEnergy's share of capital investment in 2003 was $4 million. With the necessary level of customer commitments, Heritage Gas could serve approximately 20,000 residential customers and 6,500 businesses by 2010, and produce approximately $7 million in annual regulated earnings.

These diversified extra-provincial investments complement our core transmission, distribution and storage business in Saskatchewan, which will always be our primary focus. By opening the door to new opportunities, through extra-provincial investment the Corporation's world-class natural gas expertise can fulfill its ultimate mandate – bringing back revenue and business opportunities for the benefit of the people of Saskatchewan.

Heritage Gas
Putting Our Energy Here. Naturally.



*In 2003, Heritage Gas connected the existing natural gas distribution infrastructures in Burnside Industrial Park and Crichton Park by boring underneath Highway 111 in Dartmouth.*

*Until 2003, Nova Scotia was one of the last remaining jurisdictions in North America without natural gas distribution service. Over the next two decades, Heritage Gas will deliver natural gas to customers in six counties including Cumberland, Colchester, Pictou, Halifax, East Hants and the Goldboro area of Guysborough County.*

## DELIVERING SERVICE

2003 was a record year for natural gas drilling and field receipts in Saskatchewan in part because across North America it was also a record year for something else – the average annual open market price of natural gas. While a boon for the industry, high prices pose a significant challenge for many of our customers. Despite the fact SaskEnergy purchases natural gas in the western Canadian marketplace, sells it without mark-up to its customers, and offers competitive rates, we ultimately cannot entirely shield customers from the market price of gas. We can, however, deliver a variety of conservation and account management services to help consumers manage their energy usage and costs.

*Since the ENERGY STAR® Loan Event was launched in September 2003, SaskEnergy Network and Industry Dialogue Table member Jerry Declare of Pioneer Co-op Swift Current (pictured here with Margot Almas, SaskEnergy's Manager of Marketing & Sales) has used this effective incentive to help customers save on their heating costs with high-efficiency furnaces and boilers.*

# DELIVERING SERVICE

## *Delivering Savings*

Conserving energy today benefits the environment tomorrow and extends the useful life of our non-renewable resources. At the same time, it can deliver significant savings for consumers, so in 2003 SaskEnergy continued to offer a comprehensive package of energy conservation services to its customers.

In 2001, the Corporation introduced the Prime Rate Loan Program in co-operation with the SaskEnergy Network, a group of more than 130 private-sector retailers and contractors in the Province who offer a variety of natural gas products and services. The Prime Rate Loan Program provided homeowners with an incentive interest rate on loans to purchase high-efficiency natural gas appliances from members of the SaskEnergy Network. Through this conservation initiative, which received the support of Natural Resources Canada beginning in late 2002, more than 7,000 Saskatchewan homeowners used $25.5 million in prime rate loans to purchase new natural gas appliances, realizing about $4 million in energy and interest savings. SaskEnergy is the only natural gas utility in Canada to have offered this type of service to its customers.

When the program concluded in June 2003, due to customer demand, SaskEnergy, the SaskEnergy Network and Natural Resources Canada implemented a follow-up initiative. In September the Corporation launched the ENERGY STAR® Loan Event, which provides prime rate loans for purchases of high-efficiency natural gas furnaces and boilers before March 31, 2004. Under this program, the average homeowner could save up to $570 in annual energy costs and up to $300 in borrowing costs. The ENERGY STAR® Loan Event is a cost-effective way for Saskatchewan residents to conserve energy by upgrading their home heating equipment.

Approximately 2,000 SaskEnergy customers are expected to participate in the ENERGY STAR® Loan Event during its first six months. This means that by early 2004, over 9,000 Saskatchewan homeowners will have used prime rate loans to purchase energy-efficient natural gas heating equipment from Network Members.

*2003 marked the fifth anniversary of the SaskEnergy Network, an alliance of more than 130 private-sector Saskatchewan retailers and contractors who effectively deliver a variety of natural gas services to our customers. This relationship builds on SaskEnergy's and Saskatchewan's natural gas business strengths to improve service delivery in the Province. At the same time, it provides smaller Saskatchewan-based businesses with another tool to help them remain competitive and meet customers' needs.*

In 2003, SaskEnergy continued to support EnerGuide for Houses, a home energy audit service originally begun in 2002 in co-operation with SaskPower, Natural Resources Canada and Sun Ridge Group. Through this service, a certified professional analyzes a home's energy efficiency and provides the homeowner with detailed recommendations on improving energy efficiency. SaskEnergy offers customers the convenience of online bookings and easy monthly payments on their SaskEnergy bills.

Each year, thousands of customers save money through other SaskEnergy safety and energy conservation services. Since we first offered them in 2000, for example, our two Natural Choice Services – the SaskEnergy Home Check-Up and the SaskEnergy Network Home Heating Tune-Up – have allowed over 10,000 customers to keep their home heating systems in proper running order. And in 2003 our most popular conservation service offering – the free, do-it-yourself **energy***check* online home energy audit at www.saskenergy.com – helped approximately 2,800 customers understand their home energy use and find energy-saving solutions to save money in the long term.

### *Delivering Competitive Rates*

Saving money is important for SaskEnergy customers in light of natural gas market conditions. The SaskEnergy natural gas-buying program is designed for both competitiveness and rate stability, and has delivered the lowest residential rates in Canada for four of the past seven years. In February and March 2003, a prolonged cold weather pattern affected the most heavily populated areas of North America, causing extreme price volatility and higher prices for all of the continent's natural gas consumers. Most utilities responded by immediately adjusting their rates early in the year, but SaskEnergy strove to protect customers for as long as possible.

*Home Improvement Expert Shell Busey, who helps SaskEnergy tell customers about the importance of annual furnace maintenance, says: "Your furnace is like a car. Regular maintenance keeps it running at peak efficiency, which saves you energy and money." The SaskEnergy Home Check-Up and the SaskEnergy Network Home Heating Tune-Up are great ways to follow his advice.*

## DELIVERING SERVICE

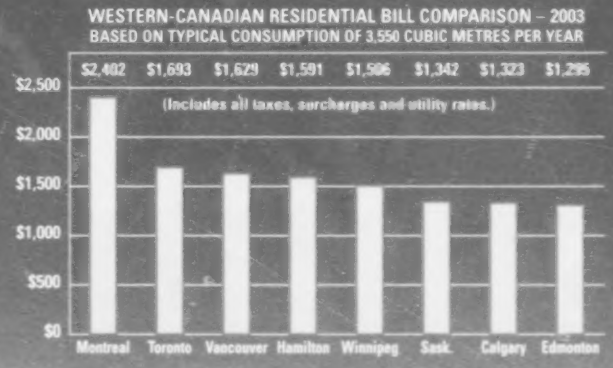
Because SaskEnergy's existing rate of $5.44/GJ was not recovering the actual cost of purchasing gas, the Corporation applied for a rate increase in April. An interim increase was granted on May 1 and finalized on August 1 at the rate of $6.97/GJ. With the continuation of extraordinary volatility in the market, the central goal of SaskEnergy's buying program remains to deliver continued rate stability. Accordingly, the Corporation expects this rate to be effective until at least November 2004.

### *Delivering Online Solutions*

Just as SaskEnergy's stable rate philosophy allows customers to better manage their bills, our online services allow them to better manage their accounts and energy information.

My Account Online debuted for customers at www.saskenergy.com in August. This convenient and secure application allows SaskEnergy customers to view account information such as their payment history, copies of their actual bills and a two-year billing comparison. Customers may even set up several accounts to monitor bills for multiple residences or businesses.

My Account Online also provides a convenient way for customers to join SaskEnergy's Equalized Payment Plan (EPP) and submit natural gas meter reads. In total, during its first four months of operation My Account Online provided 4,266 Saskatchewan natural gas consumers with an account




*Compared to natural gas consumers in other provinces, Saskatchewan residents had among the lowest average annual bills in Canada in 2003.*

information service that is easy to use but detailed enough to accommodate individual preferences. The number of online EPP sign-ups increased from 350 in 2002 to 755 in 2003, meaning that more than 130,000 SaskEnergy customers now use equalized payment services to bring predictability to their monthly natural gas bills. Customers also submitted 11,594 online meter reads, a nearly 70% increase over 2002.

As SaskEnergy added features to its selection of online solutions in 2003, more customers began to use www.saskenergy.com to share and obtain information. Since its inception in June, the ExpressAddress moving notification service allowed 614 customers to easily transfer utility service when they changed residences. To meet the needs of both teachers and students, in September SaskEnergy also expanded its website to include "The Learning Centre," a valuable classroom resource about natural gas.

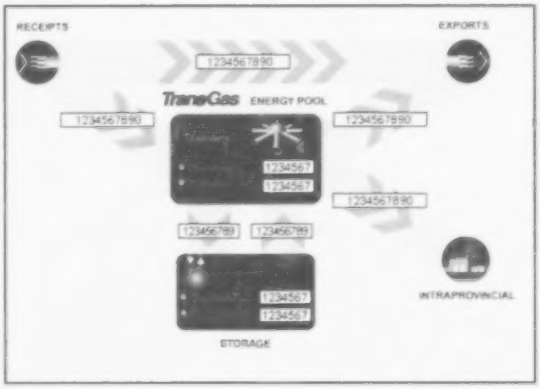
Others found www.saskenergy.com to be a convenient way of booking services. Using the site, 8,181 customers sought information about Network Members and the services they provide, and 180 of them signed up online for a Natural Choice Service. An additional 447 customers used the website to request an EnerGuide for Houses evaluation.

Distribution customers were not the only ones to benefit from the Corporation's web-based applications – TransGas' customers found enhancements to the full complement of e-business solutions at www.transgas.com.

*As SaskEnergy Co-op student Sarina Halverson discovered, moving to Saskatchewan or changing residences within the Province became easier in August with the launch of the "one-stop" ExpressAddress online service at www.expressaddress.com. ExpressAddress – a collaboration between SaskEnergy, SaskPower, SaskTel, Saskatchewan Government Insurance and the cities of Regina and Saskatoon – is a major customer service enhancement that allows Saskatchewan residents to connect, transfer or disconnect residential services for telephone, electricity, natural gas and water. Site visitors can also update their address for driver's licences, vehicle registrations, and various city services. Saskatchewan is the first province in Canada to offer this type of multiple organization online address change service.*

## DELIVERING SERVICE

In May 2003, TransGas fully implemented the gas title transfer function of the web-based nominations system, and as a result, customers have more flexible and immediate ways of conducting natural gas transactions than ever before. At the same time, this single application has significantly improved efficiency and eliminated the potential for data entry errors.




*TransGas has implemented many new electronic services to help customers make quicker and more informed business decisions. One example is the electronic natural gas web nomination service, shown here as viewed by customers at www.transgas.com.*

For example, over the course of 2003, the TransGas web nominations application handled 62,708 transactions that were entered by customers and submitted directly to our business systems via the Internet. Before the new system, these transactions would have been faxed to TransGas and manually entered into our business systems by staff. Eliminating this manual data entry activity has created an opportunity for TransGas Customer Service Administrators to focus on more value-added tasks and data analysis to better serve TransGas customers.

Overall, www.transgas.com had 81,929 visits in 2003. This amount of website traffic, combined with the enhancements to the web-based nomination system, translated into a 25% increase in customer use of TransGas e-business applications compared to 2002.

### *Delivering Personalized Customer Service*

Outstanding service is about more than doing business faster – it's also about actively involving customers in decision-making and meeting their individual needs.

That's what the TransGas Customer Dialogue Process is all about. Consisting of 16 representatives from customer groups and employees from TransGas business units, the Customer Dialogue Group holds face-to-face discussions several times each year in order to discuss future TransGas service offerings, policies, capital expenditures and rate design.

In addition to conducting its regular Customer Dialogue Group meetings in 2003, TransGas held two one-day customer workshops attended by 200 current and potential customers representing 75 companies. The first workshop – held in March and entitled "Instant Service" – gave an overview of the company, its business processes and e-business tools. "Instant Service" presentations took place in both Regina and Calgary to accommodate Saskatchewan as well as out-of-province customers.

Together with representatives from a number of Saskatchewan Government departments and some TransGas customers, in November 2003 TransGas hosted a second workshop entitled "The Saskatchewan Natural Gas Advantage." Held in Calgary, this workshop encouraged out-of-province companies to invest in Saskatchewan's growing natural gas industry. Participants received information about every phase of natural gas development in Saskatchewan – reserve location, land acquisition, royalty regimes, receipt tie-ins, transportation and marketing.

Our personalized approach to dealing with customers is delivering results. In May 2003, independent benchmarking by Houston-based Mastio and Company named TransGas the top pipeline company in western Canada for overall customer service. This shows how strong our relationship is with our customers, and reflects how we do business – by constantly working to anticipate and address individual customer needs to deliver the best possible service every day.

## DELIVERING RELIABILITY

During Saskatchewan winters, heating your home is not a luxury – it's a necessity. SaskEnergy and TransGas' service must be 100% dependable, so our first priority is doing whatever is required to operate the safest and most reliable system possible for our customers. That's why in 2003 we again took a variety of proactive measures to ensure the integrity and reliability of our natural gas infrastructure.

*Donna Herchuk, Dispatcher for Gas Control, is one operator of the new Telvent SCADA (Supervisory Control and Data Acquisition) system that fully integrates gas control and information management systems within the Corporation.*

# DELIVERING RELIABILITY

*The new Telvent system continuously monitors over 100 remote terminal units (RTUs) located at major metering stations, major block valves, city gate stations and compressor stations such as the one near Unity (pictured here). It also communicates regularly with 270 field flow computers located at various metering facilities, and 50 RTUs located at smaller town border stations.*

## *Enhancing System Reliability*

Consisting of close to 80,000 kilometres of pipeline and hundreds of related facilities including compressor stations, town border stations, storage caverns and metering points, the SaskEnergy/TransGas network is one of the longest consolidated pipeline systems in the world. Monitoring, controlling and maintaining such a large system is an ongoing process crucial to safety and reliability. As part of this process, in 2003 the Corporation invested $3.6 million to upgrade its Supervisory Control and Data Acquisition (SCADA) computer system which will help protect its pipeline and facility infrastructure.

Employees from areas including Gas Control, Transmission and Distribution Operations and Gas Measurement rely on SCADA to remotely monitor pipelines and other facilities across the Province. At the same time, from a central location employees can instantly control the system's operation by starting or stopping compressor stations, adjusting gas pressure or volumes, or even injecting into or producing from natural gas storage facilities.

In 2003 the Corporation modernized SCADA by implementing a new, fully integrated data acquisition, control and information management system – one of the most advanced of its kind in the world. Supplied by Telvent Canada Ltd., this secure system will enable employees from several corporate departments to obtain and use real-time information about facility operations. TransGas Customer Service, for example, can now provide transmission and storage customers with the most timely and accurate flow information possible.

The Telvent system also integrates various existing "islands" of automation equipment such as flow computers and remote terminal units at facilities across Saskatchewan into a comprehensive information network. This expanded capability reduces the number of site visits field staff are required to make. Most importantly, it gives employees an intimate knowledge of – and the ability to remotely control from a distance – the minute-by-minute operations of the Corporation's natural gas transmission, storage and distribution network.

Should a mechanical failure affect one of the many monitored sites, be it anywhere in the Province – as far northwest as Pierceland or as far southeast as North Portal, for example – the Telvent system would provide immediate alarm and operational data to Gas Control. The Dispatcher on duty would then take appropriate action by calling SaskEnergy or TransGas field personnel to the location and if necessary, activating emergency response procedures to ensure public and employee safety. In some cases, the Dispatcher might even address the situation remotely by starting or stopping a compressor or increasing or decreasing storage production to redirect gas flow in the area.

Monitoring and maintaining our natural gas network have always been two of our strengths, and the upgraded SCADA system makes these processes more efficient to help us deliver the safest and most reliable service possible to our customers. The Telvent system will enable the Corporation to provide better information services for customers, monitor more facilities and engage more staff in the support and operations of the pipeline network than ever before.

Also during 2003, SaskEnergy and TransGas prepared for a major computer system upgrade and implementation that will be our most extensive, integrated business application yet. Supplied by J.D. Edwards, the OneWorld application integrates multiple systems into one, creating standard business processes for several different corporate departments – Accounting, Finance, Purchasing, Materials Management, Human Resources, Payroll, and Station and Equipment Maintenance. By more efficiently managing these key functions within the Corporation, OneWorld and the more than 650 employee users will streamline many of SaskEnergy and TransGas' internal processes to create both immediate and long-term efficiencies and savings.

*Throughout 2003, a core group of employees from business groups across the Corporation managed the implementation of OneWorld. From left to right: Rhonda Korpan (Project Manager); Darren Janke (Team Lead, Supply Chain Management); Dave McWatt (Team Lead, Station Equipment Maintenance); Shannon Fraser-Hansen (Team Lead, Human Resources/Payroll/Time Capture); Brent Schick (Team Lead, Technology); Crystal Pugsley (Project Consultant); Twyla Pateman (Team Lead, Process System Integrity); Gord Gault (Team Lead, Finance). Missing: Tracy Singer (Team Lead, Change Management).*

## DELIVERING RELIABILITY

This long-term investment will also help the Corporation more efficiently maintain the integrity of its natural gas infrastructure. Once its state-of-the-art operations and maintenance functions are fully implemented in May 2004, OneWorld will improve how SaskEnergy and TransGas track the purchasing, inventory and installation of parts and equipment. For example, when a part is required, employees from different departments will now be able to track all stages of its progress – from initial order right through to final installation. An efficient system is a dependable system, and by maintaining data on one corporate system and streamlining the processes our staff use to plan, perform and track maintenance activities, OneWorld will help SaskEnergy and TransGas deliver even more safe and reliable service to their customers.

### *Making a Commitment to Public Safety*

On January 2, 2003, the Corporation helped streamline another aspect of pipeline safety and reliability in Saskatchewan. That day, its wholly owned subsidiary Saskatchewan First Call Corporation (*Sask 1st Call*) began offering an enhanced free "call before you dig" service for contractors, businesses or residents planning to excavate anywhere in the Province.

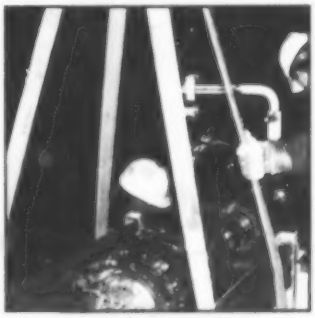
*Sask 1st Call* is a communication service between excavators and subscribing companies who own buried facilities in the Province. To use the service, an excavator calls the *Sask 1st Call* toll-free number and speaks directly with a *Sask 1st Call* Customer Service Representative (CSR). The CSR then enters the location of the proposed project into a screening database which determines the subscribing companies that have underground facilities at the site. Affected companies are automatically notified by the system that a line locate is required. Each company is responsible for marking its underground lines, following its usual practices.

*Sask 1st Call* is a testament to the Corporation and its partners' commitment to system integrity and public safety. With limited operational staff and human resources, private-sector pipeline companies from the oil and natural gas industry worked with SaskEnergy and TransGas to develop *Sask 1st Call* using successful models from other provinces.

The Corporation responded by using both its staffing infrastructure and its experience in processing line locates to develop and operate *Sask 1st Call*. In return, member companies cover ongoing costs to make the system a revenue-neutral, cost-effective way to protect SaskEnergy, TransGas and 10 other companies' underground infrastructures while enhancing safe construction practices. In 2004, the Corporation will work to extend *Sask 1st Call's* service beyond the pipeline community to other companies which own underground facilities.

*Immediately following its January 2003 inception, Sask 1st Call began safeguarding Saskatchewan contractors and residents as well as protecting the Province's oil and gas infrastructure. By the end of the year, Sask 1st Call CSRs had processed 48,125 line locate requests and issued 48,767 notifications to its 12 members.*

# DELIVERING RELIABILITY



*Conducting In-Line-Inspections (ILI) is just one part of the Corporation's hands-on approach to preserving the integrity of its pipeline infrastructure. Here, TransGas engineers and operators prepare to run an ILI tool through the 14-inch line between Biggar and Saskatoon.*

## *Special Section – Delivering Safety and Reliability*

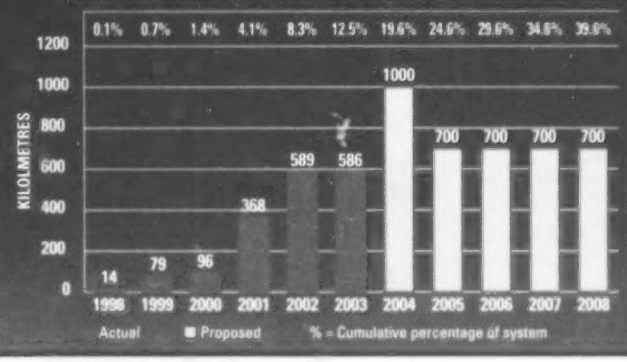
Historically, SaskEnergy and TransGas have an enviable service record, and with good reason. The Corporation's ongoing investment in system integrity is evidence of its focus on safety and reliability.

This investment involved a combination of proactive safety measures, including visual and non-destructive examination of infrastructure wherever possible. TransGas also conducted aerial inspections of its pipeline right-of-way to check for encroachments on its facilities, and leak surveyed all rural pipelines – approximately 14,000 kilometres – by helicopter.

To complement these aerial inspections, ground-based leak detection took place in all urban centres, in rural areas, and at plant facilities. With ground-based surveys utilizing sensitive leak detection equipment, SaskEnergy inspected approximately 67,000 customer service lines and another 11,700 kilometres of its main pipelines for natural gas leakage. SaskEnergy and TransGas also performed a combined 70 direct examinations of pressure vessels and station piping sections.

In 2003 the Corporation used a variety of industry-proven technologies to assess the structural integrity of its transmission and gathering pipelines. Sophisticated computer modeling allowed us to assess and mitigate age-related potential pipeline and facility risks such as external corrosion and stress corrosion cracking. For example, TransGas conducted In-Line-Inspections (ILI) – where a computerized tool is inserted into and down

**IN-LINE INSPECTION (ILI) TO LOCATE PIPELINE CORROSION – TRANSGAS**

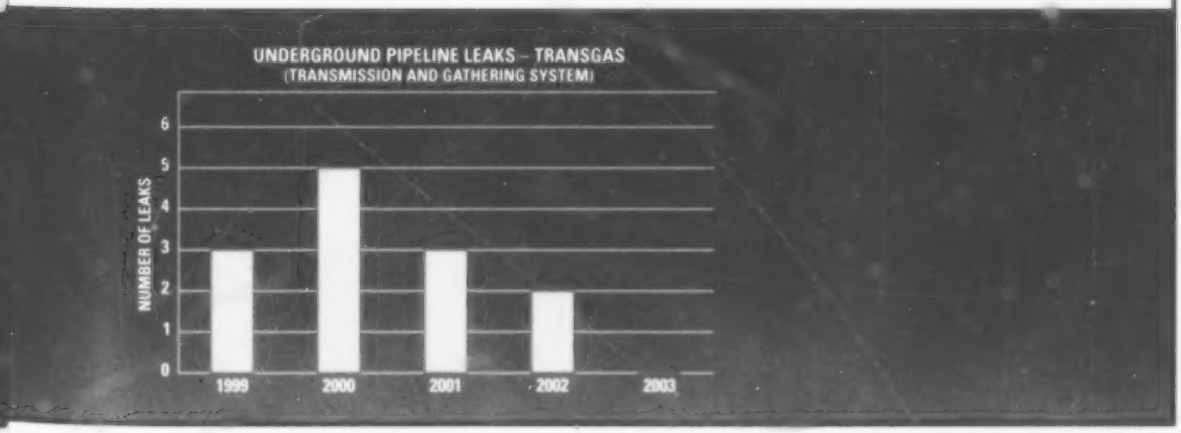



*To ensure safety while managing costs, SaskEnergy and TransGas use a sophisticated risk assessment system which factors in pipeline age, construction material, geographic location and other risk factors to determine which pipelines should be inspected each year.*

a pipeline to gather data on potential problem areas – on 586 kilometres of pipeline. Analysis of ILI data and system-predictive modeling resulted in 28 investigative digs totalling 1,205 metres on six major pipelines in the Province. Without the use of electronic inspection tools, these proactive steps would not otherwise have been possible.

There were three minor TransGas pipeline hits in 2003, all of which were on small pipelines, and only one briefly disrupted service. After service was restored, a detailed investigation took place to determine reasons for the incident so steps could be taken to minimize the potential of similar situations occurring elsewhere.

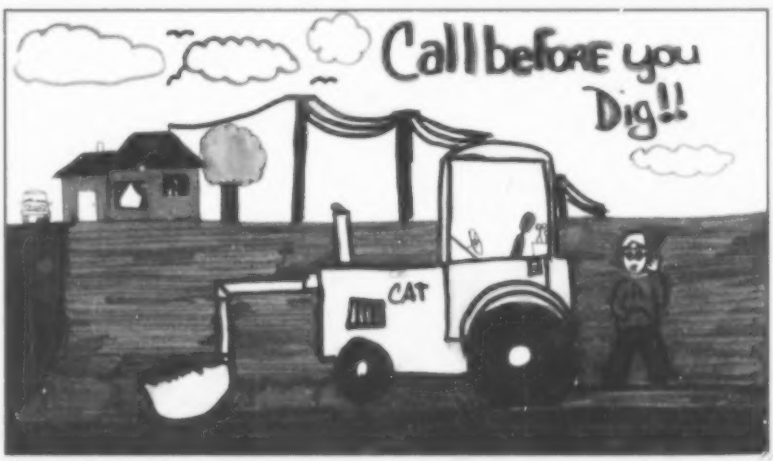
Increasing public awareness was perhaps the most important proactive measure we took in 2003 to protect our infrastructure and those who work around it. We instructed First Responders in 35 communities of the actions necessary in the event of a natural gas incident. Through mailouts and 1,750 visitations with landowners, members of Saskatchewan's First Nations and other individuals, we emphasized the importance of conducting a line locate before digging. Throughout the Province we also held pipeline safety discussions with 2,194 contractors representing 203 companies, and actively promoted *Sask 1st Call* as a crucial first step in any construction process.



## DELIVERING RELIABILITY

These ongoing maintenance, improvement and public awareness initiatives have tangible results for the Corporation. They help us deliver reliable service and ensure the safety of Saskatchewan people, as well as our employees. At the same time, they allow us to manage our extensive infrastructure in the most efficient manner possible, minimizing its effect on our transmission and distribution delivery rates.

In 2003, the Corporation had the energy to deliver safe and reliable service to its customers, something that will continue in 2004 and beyond. By investing approximately $50 million over the next five years and $75 million during the next decade to maintain the integrity of our pipeline infrastructure, we will fulfill our primary purpose as a Crown corporation – providing the world-class natural gas service Saskatchewan customers have come to expect.




*Each year, one of our most effective public awareness initiatives is the SaskEnergy/First Nations Safety Calendar, which features natural gas safety-related artwork by Saskatchewan First Nations children. The calendar communicates natural gas safety messages and at the same time reinforces the relationship between the Corporation and First Nations communities across the Province. This drawing by Cheyenne Wolfe of the Muskowekwan First Nation is one of 14 which will appear in the 2004 calendar.*

## GLOSSARY OF NATURAL GAS MEASUREMENTS

**Joule (J)** – a base metric measure of energy. One J is the equivalent of the energy required to raise the temperature of one gram of water by approximately one quarter of one degree Celsius.

**Gigajoule (GJ)** – a measure of energy used to express the heating value of natural gas or of energy consumed. One GJ is equivalent to one billion J. An average home uses about 130 GJ per year.

**Terajoule (TJ)** – a unit of energy equivalent to 1,000 GJ.

**Petajoule (PJ)** – a unit of energy equivalent to 1,000,000 GJ.

**Cubic metre ($m^3$)** – a unit of volume measurement commonly used to express the amount of natural gas sold to consumers. The typical home uses about 3,550 $m^3$ of gas per year.

## BOARD OF DIRECTORS

### *Board of Directors*

Standing, left to right: Emmet Reidy, Tim Gitzel, George Lafond, Jean Weimer, Ron Clark, Mervyn Simon

Seated, left to right: Ralph Hesje, Geoffrey Bartlam, Mike Chorlton

### *Executive Committee*

Ronald S. Clark, President and Chief Executive Officer

Larry Braun, President, Communications, Energy & Paperworkers (CEP) Union, Local 649

David Easton, President, SaskEnergy International

Ken From, Senior Vice President, Gas Supply

Mark Guillet, Vice President, General Counsel & Corporate Secretary

Robert Haynes, Vice President, Human Resources

Colleen Huber, Vice President, Information Systems

Doug Kelln, Senior Vice President, Distribution Utility

Greg Mrazek, Vice President, Finance & Administration and Chief Financial Officer

Ron Podbielski, Executive Director, Corporate Affairs

Daryl Posehn, Vice President, TransGas

Dean Reeve, Executive Vice President, SaskEnergy and TransGas

## FIVE-YEAR OPERATING SUMMARY - DISTRIBUTION

| | 2003 | 2002 | 2001 | 2000 | 1999 |
|---|---|---|---|---|---|
| Sales in million cubic metres[1] | 3,686 | 3,419 | 3,151 | 3,501 | 3,409 |
| Residential annual Average usage (cubic metres) | 3,420 | 3,478 | 3,173 | 3,497 | 3,316 |
| Degree days[2] | 5,817 | 5,987 | 5,390 | 5,864 | 5,343 |
| Customers at year end[3] | 325,504 | 323,721 | 321,612 | 320,340 | 317,219 |
| **Pipeline (kilometres)** | | | | | |
| Distribution Utility | | | | | |
| SaskEnergy | 65,559 | 65,371 | 65,123 | 64,744 | 64,169 |
| Swan Valley Gas Corporation | 120 | 120 | 120 | 120 | 0 |
| | 65,679 | 65,491 | 65,243 | 64,864 | 64,169 |

[1] Retail.
[2] A unit measuring the extent to which the temperature falls below 18° Celsius. (In a normal year, the degree days are 5,704.)
[3] Number of active services.

## FIVE-YEAR OPERATING SUMMARY - TRANSMISSION[1]

| | 2003 | 2002 | 2001 | 2000 | 1999 |
|---|---|---|---|---|---|
| **Pipeline (kilometres)** | | | | | |
| TransGas Limited | | | | | |
| Transmission | 13,358 | 13,216 | 13,097 | 13,067 | 13,033 |
| Gathering | 197 | 289 | 286 | 286 | 286 |
| Many Islands Pipe Lines (Canada) Limited | 435 | 435 | 454 | 434 | 414 |
| Bayhurst Gas Limited | 92 | – | – | – | – |
| | 14,082 | 13,940 | 13,837 | 13,787 | 13,733 |
| **Compressor Stations** | | | | | |
| TransGas Limited | 22 | 22 | 22 | 22 | 22 |
| Many Islands Pipe Lines (Canada) Limited | 1 | 1 | 1 | 1 | 1 |
| Bayhurst Gas Limited | 3 | – | – | – | – |
| | 26 | 23 | 23 | 23 | 23 |
| **Compression Horsepower** | | | | | |
| TransGas Limited | 93,550 | 100,620 | 100,620 | 100,375 | 100,375 |
| Many Islands Pipe Lines (Canada) Limited | 4,000 | 4,000 | 4,000 | 4,000 | 4,000 |
| Bayhurst Gas Limited | 6,300 | – | – | – | – |
| | 103,850 | 104,620 | 104,620 | 104,375 | 104,375 |
| Peak Day Gas Flows – Winter Season (Petajoules) | 1.46 | 1.30 | 1.30 | 1.36 | 1.28 |
| Date of Peak Day Flow | Jan. 22 | Jan. 28 | Feb. 26 | Dec. 11 | Dec. 19 |
| Storage Cavern Sites | 7 | 7 | 7 | 7 | 7 |
| Storage Caverns | 23 | 23 | 23 | 24 | 24 |
| Storage Field Sites | 3 | 3 | 3 | 3 | 3 |

[1] Effective January 2003, the Beacon Hill storage field assets were transferred from TransGas Limited to Bayhurst Gas Limited (an affiliate).

SaskEnergy

1000-1777 Victoria Avenue, Regina, Saskatchewan S4P 4K5
www.saskenergy.com

For additional copies of this year's annual report,
please call SaskEnergy at (306) 777-9378 or visit our website.

This is part of a three-book set consisting of the Annual Report 2003,
Management's Discussion and Analysis 2003 and Corporate Social Responsibility Report 2003.

Management's Discussion and Analysis 2003
Consolidated Financial Statements 2003

# the energy to deliver

SaskEnergy

## TABLE OF CONTENTS

This Discussion and Analysis is a review of the strategic financial direction, performance measurement, results of operations, risk factors and outlook of SaskEnergy Incorporated and its subsidiaries for the year ended December 31, 2003.

This discussion should be read in conjunction with the audited consolidated financial statements of the Corporation, and the notes thereto, contained in this annual report.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# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Corporate Background

SaskEnergy Incorporated (SaskEnergy or the Corporation) is a Saskatchewan Crown corporation governed by *The SaskEnergy Act*. Its two major business units are a natural gas distribution utility owned and operated by SaskEnergy and a natural gas transmission utility owned and operated by TransGas Limited (TransGas), a wholly owned subsidiary. SaskEnergy has an exclusive legislated franchise to own and operate a natural gas distribution utility within the Province of Saskatchewan. The Provincial Cabinet (Cabinet) regulates SaskEnergy's rates, on the advice of the Saskatchewan Rate Review Panel. TransGas has the exclusive legislated franchise to own and operate the natural gas transmission pipeline system within the Province of Saskatchewan. TransGas also owns and operates a non-regulated natural gas storage business. The Corporation's structure consists of SaskEnergy, plus seven wholly owned subsidiaries that either own and operate natural gas related businesses or hold equity interests in natural gas related businesses. The corporate structure is discussed in more detail on pages four and five of the Annual Report.

## Our Strategy

As the Corporation provides natural gas distribution, transportation and storage services that are considered fundamental to the infrastructure of the Province, core business excellence must be at the forefront of the strategic corporate direction. In addition, the owner has expectations that opportunities must be pursued to achieve growth in enterprise value. Taken together, core business excellence and growth form the foundation of the strategic corporate direction.

## Our Industry

### Supply of natural gas

Saskatchewan has over three trillion cubic feet of natural gas reserves. These reserves are located in what is referred to as the Western Canadian Sedimentary Basin, which extends into Alberta and British Columbia. The reserves lie primarily in western Saskatchewan and consequentially, natural gas generally flows in a west to east direction within the Province.

Although Canadian natural gas production fell for the first time since 1986, Saskatchewan increased its natural gas production. This increase was primarily attributable to new development in the Shackleton area, northwest of Swift Current. The Shackleton development, combined with strong natural gas prices in 2003, provided the incentive for producers to drill a record number of natural gas wells in the Province. Currently, supply exceeds demand within the Province, making Saskatchewan a net exporter of natural gas.

### Demand for natural gas

Natural gas is a leading energy source in Saskatchewan as its competitive advantages include characteristics of being clean-burning and environmentally friendly. In Saskatchewan natural gas is used primarily for space and water heating in homes and in numerous commercial and industrial processes, including the generation of electricity. In addition, natural gas can be used as a feedstock in the petrochemical and fertilizer industries.

Another advantage to natural gas is its widespread availability due to the extensive development of the TransGas and SaskEnergy pipeline systems. As such, the energy sector and end-use customers continue to demand the distribution, transmission and storage services offered by SaskEnergy and TransGas.

## *Our Business Model – Delivering Results*

SaskEnergy focuses on maximizing value from the fieldgate to the end-user.

### a) Transmission Pipeline System – Business Model

#### 1. Producer

Natural gas producers meet the challenges of exploring, developing and producing natural gas reserves. The volumes produced flow onto the transmission pipeline system. The number of natural gas wells drilled in Saskatchewan is a key indicator of the future level of Saskatchewan natural gas production.

#### 2. TransGas

TransGas generates revenue through the transportation of natural gas on its transmission pipeline system. Customers, including SaskEnergy, contract for capacity on the transmission pipeline system. Revenues are primarily derived from the level of capacity contracted by natural gas producers, marketers, and end-users. The capacity contracted accounts for approximately 85 per cent of transportation revenue with the remainder earned through utilization dependent charges.

**Transportation - receipt contract revenue**

TransGas receipt contract revenue is dependent upon the level of receipt volumes contracted by shippers. Shippers contract for capacity on the transmission pipeline system to transport natural gas from production areas (primarily in western Saskatchewan) to the TransGas Energy Pool (TEP). TEP is the notional natural gas trading hub in Saskatchewan.

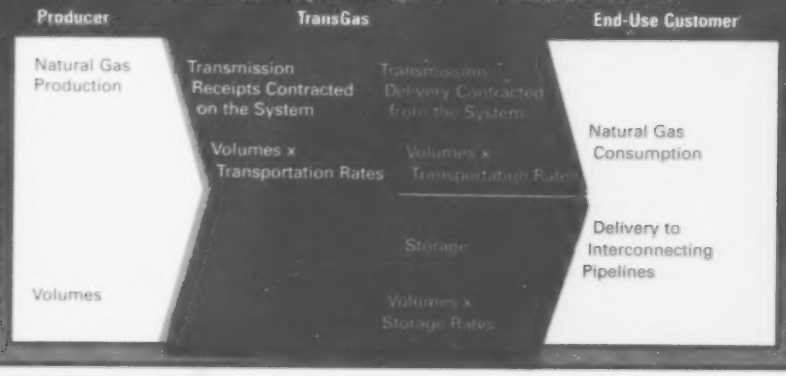
**Transportation - delivery contract revenue**

The amount of delivery contract revenue earned by TransGas is dependent upon the level of delivery volumes contracted by shippers. Shippers contract for capacity on the transmission pipeline system to transport natural gas from TEP to a delivery point in Saskatchewan or to an interconnecting pipeline.

**Storage revenue**

Customers, including SaskEnergy, may contract to inject natural gas into TransGas' underground storage facilities for withdrawal at a later date. TransGas charges customers for this service based on the volume of storage capacity contracted and withdrawal rate required.

**Transmission Pipeline System – Business Model**



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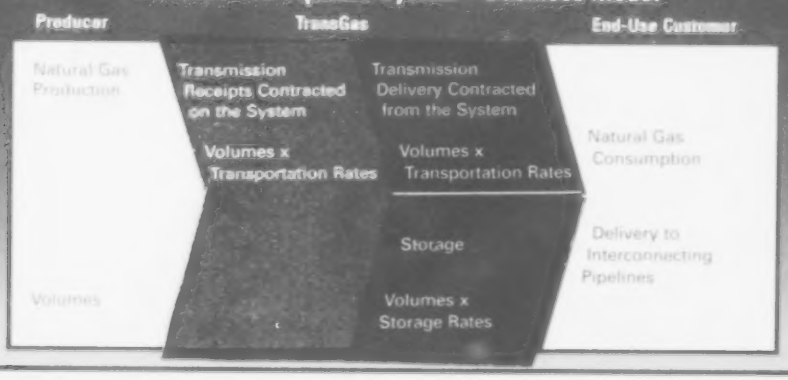


# MANAGEMENT'S DISCUSSION AND ANALYSIS

### b) Distribution Pipeline System – Business Model

**SaskEnergy**

The distribution pipeline system is designed to receive natural gas from the transmission pipeline system and deliver that natural gas to end-use customers within Saskatchewan.

**Delivery revenue**

End users consist primarily of residential, farm, commercial and industrial customers that consume natural gas for heating their premises during the winter or in various commercial and industrial processes. For this delivery service, customers pay a fixed monthly charge and a per unit charge based on the volume of natural gas delivered. Delivery revenue is dependent upon the volume of natural gas distributed. The volume charge is approximately 72 per cent of retail delivery revenue with the remainder earned through a basic monthly charge designed to recover the fixed costs of customer service.

**Commodity sales revenue**

End-use customers may purchase natural gas from SaskEnergy or any other supplier. Those customers that purchase natural gas from SaskEnergy pay a charge for each unit consumed based on a rate approved by Cabinet. The rate is designed so that, in the long term, SaskEnergy neither profits from nor incurs a loss on the sale of the commodity. Commodity sales revenue is dependent upon the volume of natural gas distributed.

## *Our Markets and Our Advantage*

### Transmission Pipeline System

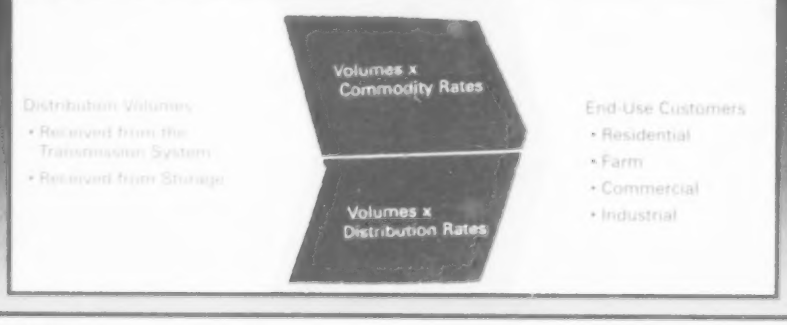
**Our markets**

The natural gas transmission pipeline system in Saskatchewan had its origin in the early 1950's. The system was designed to transport natural gas from the producing areas in western Saskatchewan to end-use customers primarily in the central and eastern portions of the Province. Since deregulation, the transmission pipeline system expanded as natural gas reserve areas were further explored and developed. When Saskatchewan production began to exceed consumption, the transmission system was developed so that TransGas could deliver natural gas to interconnecting pipelines, thereby allowing natural gas to be exported from the Province.

In addition to the producing areas, the transmission system has also been extended throughout the populated portions of the Province, as it delivers natural gas to SaskEnergy's natural gas distribution system at over 600 locations and to large end-use customers. As a result, today's TransGas transmission pipeline system is considered to be in a mature stage of development, providing service to a wide range of producers, exporters and end-use customers.

**Distribution Pipeline System – Business Model**

**SaskEnergy**



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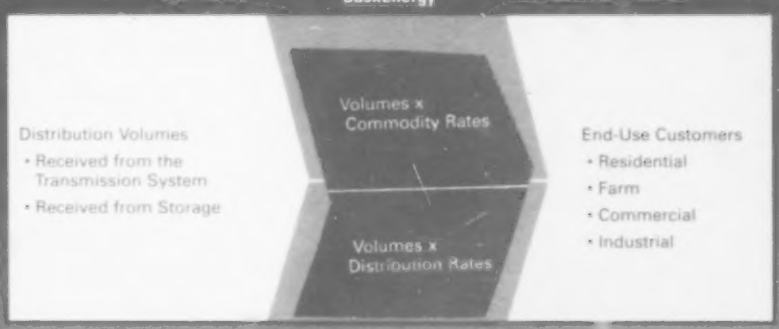


### Our advantages

#### Safety

Operating its transmission pipeline system in a safe and responsible manner is of paramount importance to TransGas. As such, TransGas has developed comprehensive programs specifically designed to ensure the safe operation of its pipeline system. The effectiveness of these programs is confirmed by TransGas' excellent safety record over an extended period of time.

#### Reliability

Producers, shippers and end-use customers expect the pipeline system to operate with a high degree of reliability, especially during the winter heating season. Consistent with its approach to safety, TransGas has designed the physical aspects of its system to ensure that it can operate virtually without interruption during all types of adverse operating conditions to meet its customers' needs.

#### 90 day tie-in policy

Producers place a high value on being able to deliver the natural gas to market soon after they have developed a reserve. In response, TransGas has developed a policy whereby it will connect new customers to existing infrastructure within 90 days of the customer commitment and before the timeline required. This policy has been a successful component in encouraging natural gas reserve development in Saskatchewan.

#### Competitive rates

TransGas' objective is to provide fair and competitive rates, balancing stability and market responsiveness. TransGas has been able to achieve this objective, as it held rates constant over the years 2000 to 2002. Although TransGas did increase rates on January 1, 2003, it was able to partially offset that increase with a temporary rate decrease from August 1, 2003 to December 31, 2003. Furthermore, there was also a rate decrease effective January 1, 2004. In addition, its export rates are highly competitive when compared to those in Alberta.

## Distribution Pipeline System

### Our markets

Over the past 50 years the demand for natural gas service has been the impetus for the continual expansion of the distribution pipeline system. The result has been the development of a distribution system that provides service to virtually every city and town in the southern half of the Province. In addition, a substantial portion of rural Saskatchewan is also served by the distribution system. Similar to the transmission pipeline system, the distribution system is considered to be in a mature stage of development.

### Our advantages

#### Product

Natural gas is a clean-burning, environmentally friendly source of energy used primarily for space and water heating in domestic, commercial and industrial applications. Recently, natural gas usage has expanded to include more non-traditional uses. As such, end-use customers in the Province continue to rely on natural gas as a product that forms an integral component of their energy needs.

**Accessibility**

The natural gas distribution system is extensively developed throughout a significant geographic area and is considered to be a fundamental component of the infrastructure of the Province. This extensive service area provides new and existing customers the ability to access natural gas services in a cost-effective manner.

**Competitive cost**

End-use customers use the services of the distribution system to have natural gas delivered to their premises. In addition, the overwhelming majority of the more than 325,000 distribution system customers buy their natural gas supply from SaskEnergy.

SaskEnergy has had only one delivery rate increase since 1994. A concerted effort to contain costs and lower interest expense by refinancing long-term debt at lower interest rates have made major contributions to this lengthy period of rate stability.

Even though natural gas prices in the open market have risen to new highs, natural gas still remains cost competitive when compared to other forms of energy.

**Safe, reliable system**

Similar to the transmission system, SaskEnergy considers it imperative that the distribution system be operated in a safe, reliable and responsible manner. The distribution system has developed extensive programs to address both safety and reliability. Customers have come to rely on the consistent performance of the distribution system, where service is provided with the highest regard for safety and reliability.

## Delivering Results

By operating safe, reliable transmission and distribution pipeline systems, offering competitive rates and customer responsive solutions, SaskEnergy and TransGas have positioned themselves to deliver customer service excellence, grow enterprise value for the owner and ensure future success in the marketplace.

## *Consolidated Financial Results and Analysis*

**Statement of consolidated net earnings for the year ended December 31, 2003 (millions)**

| | Actual | Business Plan | Variance Favourable (Unfavourable) |
|---|---|---|---|
| **Revenue** | | | |
| Delivery | $ 165 | $ 169 | $ (4) |
| Transportation and storage | 81 | 75 | 6 |
| Net sales from gas marketing | 41 | 29 | 12 |
| Revenue collected for municipalities | 24 | 24 | - |
| Other | 6 | 2 | 4 |
| | 317 | 299 | 18 |
| **Expenses** | | | |
| Operating and maintenance | 115 | 114 | (1) |
| Interest | 52 | 52 | - |
| Amortization of property, plant and equipment | 49 | 50 | 1 |
| Payments to municipalities | 24 | 24 | - |
| Saskatchewan taxes and royalties | 9 | 8 | (1) |
| | 249 | 248 | (1) |
| Net earnings from operations before the following | 68 | 51 | 17 |
| Commodity revenue | 375 | 330 | 45 |
| Cost of gas sold | 402 | 299 | (103) |
| Net revenue (loss) from commodity sales | (27) | 31 | (58) |
| Consolidated net earnings | $ 41 | $ 82 | $ (41) |

## *Statement of Earnings Analysis*

The following is an analysis of the 2003 financial results:

## *Revenue*

### Delivery revenue

Delivery revenue is primarily driven by the volume of natural gas delivered to residential, farm, commercial and industrial customers in Saskatchewan. The majority of SaskEnergy's distribution customers consume natural gas for space and water heating purposes and as a result the volume of natural gas distributed is sensitive to variations in the weather, particularly through the November to March prime heating load season.

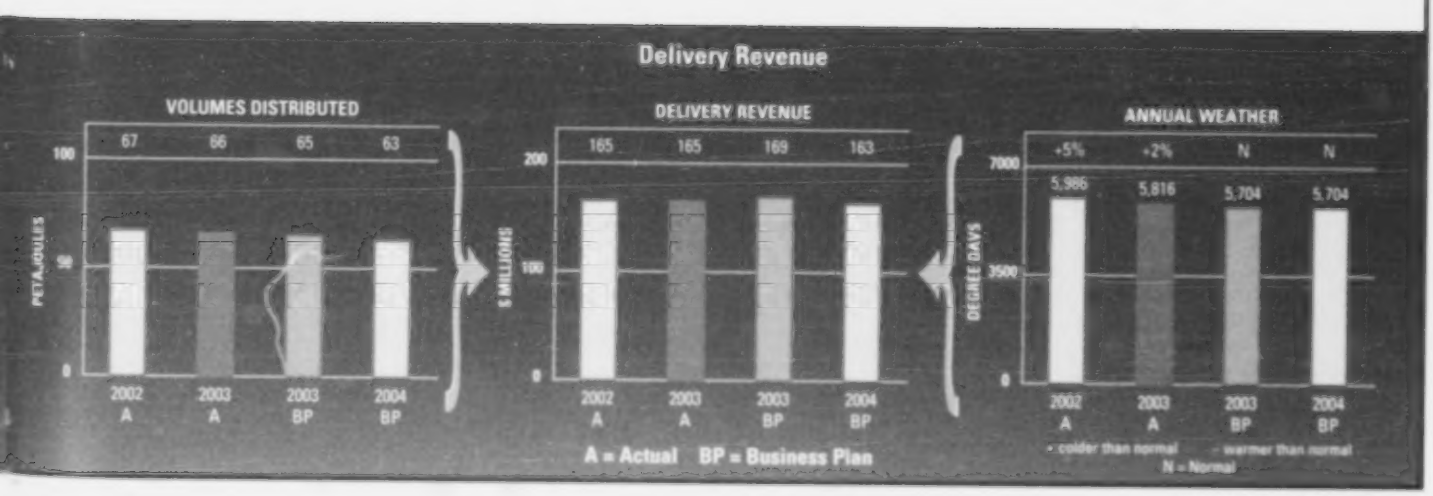
Delivery revenue totaled $165 million for 2003 which was $4 million less than the Business Plan. Factors which favourably impacted 2003 revenue included colder than normal weather, the addition of new customers and incremental revenue from new service offerings. Lower than expected delivery rates caused revenues to fall below the 2003 Business Plan level.

Weather, as measured by heating degree days over the year, averaged two per cent colder than normal in 2003 and three per cent warmer than 2002. The impact of colder than normal weather in 2003 was an incremental $2 million in delivery revenue compared to the Business Plan but $2 million less than 2002.

In total, 1,783 new customers (net of service retirements) were added during the year which contributed $1 million in incremental delivery revenue. These new customers consisted largely of new residences in the larger urban centres, resort communities and several large-volume commercial end-use customers.

SaskEnergy promoted its Natural Choice Service offerings which generated additional revenues of $0.2 million in 2003. These services include home heating check-ups, financing of customer service line costs and providing billing services for the EnerGuide for Houses Program.

Continued installation of energy-efficient furnaces combined with improved levels of building insulation is forecast to lower the average consumption per customer (excluding the impact of weather) in the future. The reduced natural gas consumption for heating purposes is partially offset by continued growth in the installation of non-traditional appliances and more industrial use in the oil industry.



# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Transportation and storage revenue

Overall, 2003 transportation and storage revenue was $81 million compared to the 2003 Business Plan of $75 million. Transportation and storage revenue was eight per cent higher than the 2003 Business Plan and 19 per cent above 2002. This increase is primarily due to increased transportation revenue attributable to new development in the Shackleton area.

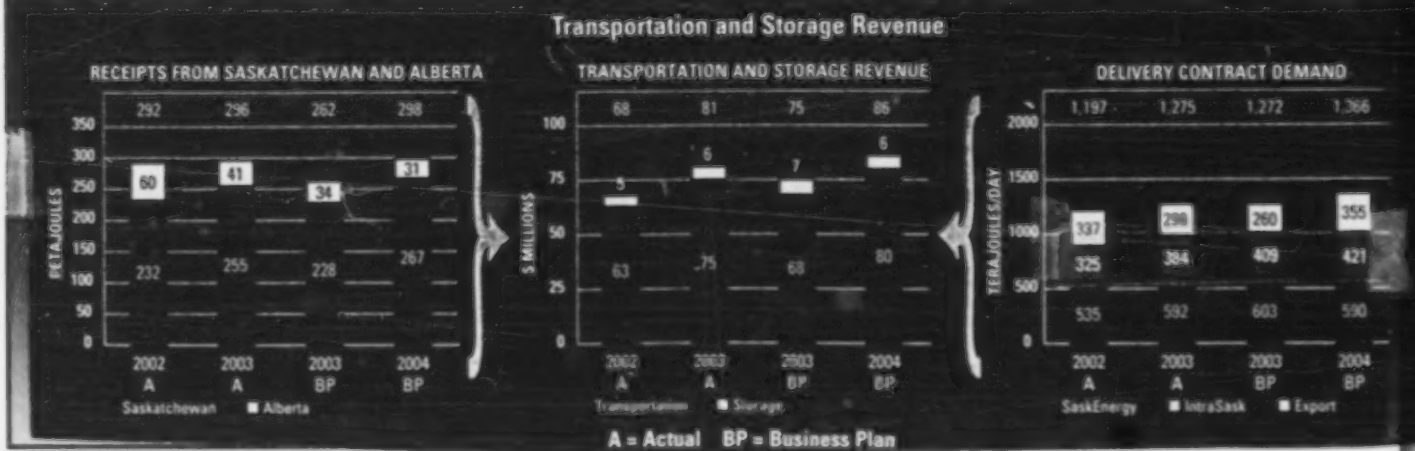
Natural gas well drilling in Saskatchewan continued at a record-breaking pace throughout 2003. The 2,294 gas wells drilled in 2003 were significantly above the levels expected in the Business Plan (1,350), and were 23 per cent higher than 2002 (1,864), again establishing a new record for Saskatchewan natural gas wells drilled. Much of the drilling activity in 2003 focused in the Hatton, Shackleton and Kindersley areas of the Province. As a result, natural gas production was higher than expected with Saskatchewan receipt volumes being approximately 27 Petajoules (PJ) above the 2003 Business Plan. The majority of this favourable variance relates to the Shackleton volumes, which grew to approximately 120 Terajoules per day (TJ/day) by December 2003. On December 23, 2003, TransGas achieved an all-time maximum for Saskatchewan receipts transported of 766 TJ/day exceeding the previous record of 765 TJ/day, which occurred in January 1995.

Transportation revenue is determined primarily by the capacity contracted by shippers for natural gas receipts and deliveries. Transportation revenue for 2003 was $75 million, which exceeded the 2003 Business Plan of $68 million. This increase was 10 per cent higher than the 2003 Business Plan and 19 per cent higher than 2002, primarily due to shippers' increased transportation of natural gas from production areas. Export contract demand decreased by 11 per cent from 2002 levels.

End-use customer demand in Saskatchewan increased by 18 per cent from 2002 (83 million) primarily due to capital expansion projects by large-scale industrial customers coming into service during the year. However, these large capital expansion projects became operational later than anticipated in the 2003 Business Plan.

Storage revenue in 2003 increased by 20 per cent from 2002 due to rate restructuring that took effect May 1, 2003. Storage capacity continued to be fully contracted in 2003 and is expected to remain at this level in 2004.

The strong throughput on the transmission pipeline system, resulting from increased drilling and production activity in 2003, is expected to increase further in 2004. The 2004 Business Plan anticipates an increase in the volumes consumed within Saskatchewan as the two large industrial projects that became operational in 2003 will have operated for a full year in 2004. Energy transported in 2004 is forecast to increase by 16 per cent from 2003 levels, primarily due to higher export volumes and industrial usage in Saskatchewan. Transportation and storage service rates were reduced by two per cent, beginning on January 1, 2004.



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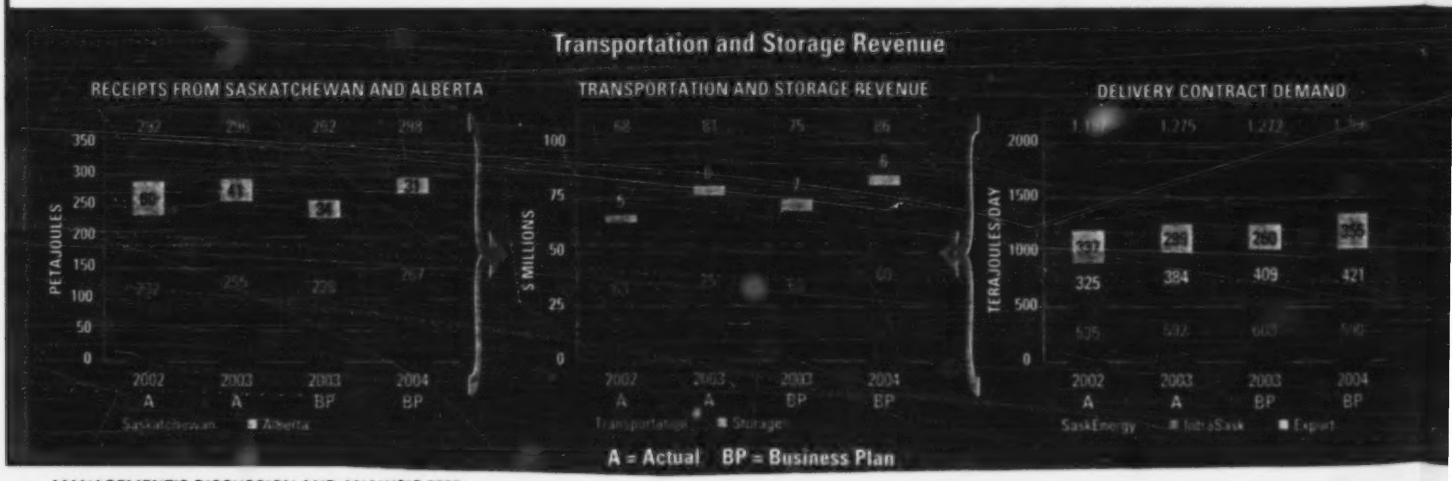
Storage revenue in 2003 increased by 20 per cent from 2002 due to rate restructuring that took effect May 1, 2003. Storage capacity continued to be fully contracted in 2003 and is expected to remain at this level in 2004.

The strong throughput on the transmission pipeline system, resulting from increased drilling and production activity in 2003, is expected to increase further in 2004. The 2004 Business Plan anticipates an increase in the volumes consumed within Saskatchewan as the two large industrial projects that became operational in 2003 will have operated for a full year in 2004. Energy transported in 2004 is forecast to increase by 16 per cent from 2003 levels, primarily due to higher export volumes and industrial usage in Saskatchewan. Transportation and storage service rates were reduced by two per cent, beginning on January 1, 2004.



## Net sales from gas marketing

### a) Natural gas sales

1. The Corporation owns underground natural gas storage fields that are no longer used as commercial storage operations. The natural gas from these fields is being removed and sold in the open market.
2. The Corporation's other storage facilities may be leveraged such that when opportunities arise, natural gas is purchased (or sold) in the open market, injected into (or withdrawn from) storage, and sold (or purchased) in the open market at a later date for a margin.

The financial results from conducting the above activities during 2003 were as follows:

| | Volumes Sold (Petajoules) | | Net Margin (millions) | |
|---|---|---|---|---|
| | Actual | Business Plan | Actual | Business Plan |
| 1. Natural gas sold from storage | 5.8 | 5.3 | $ 25.2 | $ 21.2 |
| 2. Natural gas purchased for resale | 5.4 | 3.7 | $ 8.9 | $ 6.1 |

### b) Natural gas marketing

SaskEnergy's natural gas distribution utility contracts for transmission and storage capacity based on the peak requirements of the heating load season. During off-peak periods, the natural gas distribution system may have under-utilized capacity. In order to maximize the utilization of this contracted capacity, the natural gas distribution system may purchase and sell natural gas in the open market to earn a margin. SaskEnergy also offers to supply natural gas to large end-use customers in Saskatchewan through a competitive bidding process. During 2003 SaskEnergy earned a margin of $3 million from these activities on sales volumes of 38.4 petajoules.

## Revenue collected for municipalities

In accordance with the provisions of *The SaskEnergy Act*, the Corporation is required to collect and remit revenue collected on behalf of specified urban municipalities. These municipal payments are charged to customers and reported as revenue with an equal and offsetting expense on the statement of earnings. The revenue collected for municipalities of $24 million is consistent with the 2003 Business Plan.

## Other revenue

The Corporation owns a gross overriding royalty on properties located in Saskatchewan and Alberta whereby it receives payments in accordance with the terms and conditions of the royalty interest. The 2003 royalty earnings were $6 million compared to the 2003 Business Plan of $2 million due to higher volumes produced as natural gas prices which exceeded Business Plan expectations.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## *Expenses*

### Operating and maintenance

Operating and maintenance expenses in 2003 were greater than the 2003 Business Plan by $1 million. Transportation costs paid to third parties were $1.4 million more than forecast. However, $0.9 million of these incremental transportation costs were incurred as part of activities that generated $1.5 million of additional revenue. Other costs which exceeded the 2003 Business Plan include natural gas consumed in operations of $0.9 million, provision for bad debts of $0.6 million, and other items of $0.7 million. These higher than forecast amounts were partially offset by lower costs of $2.6 million relating to external cost recoveries and additional amounts allocated to capital projects.

### Interest

The interest expense of $52 million was comparable to the amount anticipated in the 2003 Business Plan. The impact of the favourable short-term interest rates of three per cent compared to the Business Plan of five per cent was offset by the need for additional short-term borrowing to fund the shortfall in commodity sales revenue compared to the commodity cost of gas sold. The increase in short-term interest expense is expected to continue until the commodity sales revenue shortfall is ultimately received from customers.

### Amortization

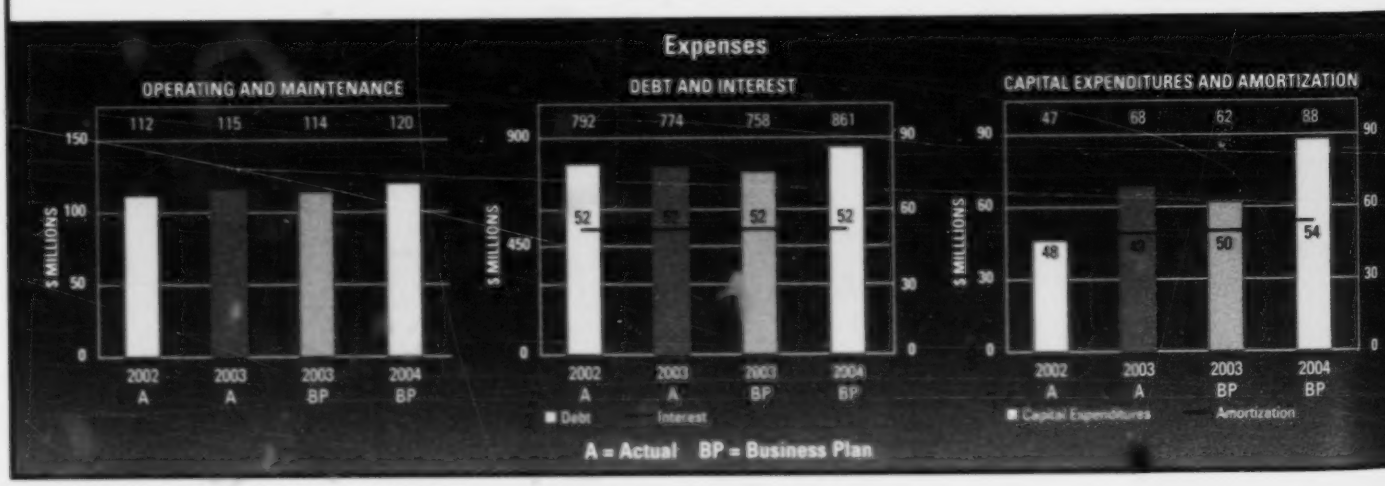
Amortization for 2003 was $1 million lower than the 2003 Business Plan of $50 million. Certain capital projects anticipated to be placed into service in 2003 will not be completed until 2004. These multi-year projects include the completion of the second phase of pipeline expansion in the Shackleton natural gas reserve area, the OneWorld single software solution project, TransGas SCADA (Supervisory Control and Data Acquisition) software upgrade project, and the natural gas storage cavern project just west of Saskatoon at Asquith. When these projects become operational in future periods, amortization will increase accordingly. In 2003 capital expenditures relating to the enhanced pipeline integrity program were continued and the program will expand in 2004.

### Payments to municipalities

In accordance with the provisions of *The SaskEnergy Act*, the Corporation is required to collect and remit payments to specified urban municipalities. The payments to municipalities of $24 million is consistent with the 2003 Business Plan.

### Saskatchewan taxes and royalties

The Corporation makes payments to the Province in the form of corporate capital taxes on capital employed and royalties based on the value of natural gas removed from natural gas storage fields. Saskatchewan taxes also include mitigation payments and property taxes. The Saskatchewan taxes and royalties were $9 million, which exceeded the 2003 Business Plan of $8 million due to higher natural gas volumes produced.



## Net revenue (loss) from commodity sales

SaskEnergy is the supplier of natural gas to the vast majority of its more than 325,000 delivery customers. Similar to practices in other regulated Canadian jurisdictions, SaskEnergy's commodity rates are designed to ensure that, in the long term, the Corporation neither profits from nor incurs a loss on the sale of natural gas to its commodity customers. The rates for the sale of the commodity are subject to a review by the Saskatchewan Rate Review Panel and are regulated by Cabinet.

In order to ensure that customers pay only the cost of the commodity, SaskEnergy has established a Gas Cost Variance Account (GCVA). The GCVA accumulates the difference between commodity sales revenue and the commodity cost of gas. This balance is either refunded to or recovered from customers in future commodity rates. The change in the balance in the GCVA is included as a component of the commodity cost of gas.

In 2003, the commodity cost of gas exceeded commodity sales revenue by $27.3 million on a consolidated basis, as the commodity rate charged to customers during the year was not sufficient to recover the current year's natural gas costs. For commodity rate purposes, the loss on commodity sales in 2003 will be recovered in future years through an increased commodity rate, as approved by Cabinet effective August 1, 2003.

In 2003, as part of the commodity rate decision, Cabinet reduced the amount recoverable from customers through future commodity rates by $12.8 million and disallowed interest charged by the Corporation on the balance in the GCVA exceeding $20 million.

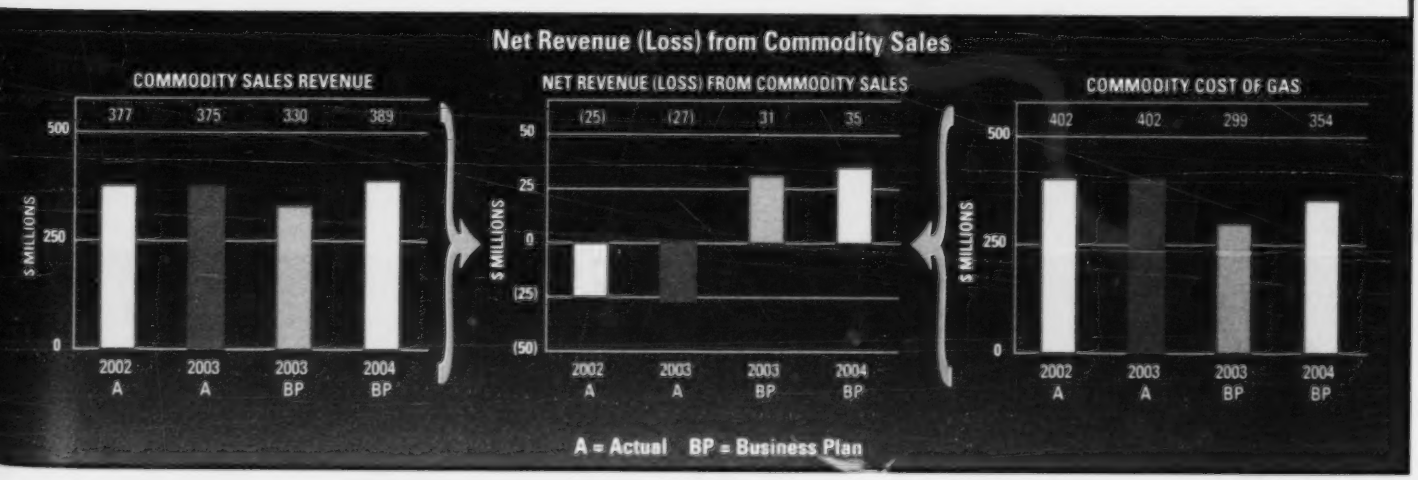
## Subsidiaries

### Bayhurst Gas Limited (Bayhurst)

Effective January 1, 2003, certain natural gas storage assets were transferred from TransGas to Bayhurst. In 2002 all revenue and expenses related to the assets transferred were included in the financial results of TransGas. For 2003, the related revenue and expenses are reported in the financial statements of Bayhurst. The net margin from the operation of these assets in 2003 was $25 million which was $4 million higher than the 2003 Business Plan. In addition, Bayhurst owns a gross overriding royalty on approximately 450 properties located in Saskatchewan and Alberta. The earnings from these royalty interests in 2003 were $6 million compared to the 2003 Business Plan of $2 million.

### Many Islands Pipe Lines (Canada) Limited (MIPL)

MIPL owns and operates 14 natural gas transmission pipelines which interconnect with other pipeline facilities at the Saskatchewan, Alberta, Manitoba, and United States borders. The 2003 net earnings of $0.2 million were comparable to the 2003 Business Plan.



# MANAGEMENT'S DISCUSSION AND ANALYSIS

### SaskEnergy International Incorporated (SEII)

SEII was created in 1996 to market SaskEnergy's world-class expertise and invest in emerging natural gas distribution, transmission and storage systems. SEII's revenue is derived from investment earnings and expenses include direct costs as well as a corporate overhead allocation. Overall, SEII's loss for 2003 was $0.5 million which was a $0.3 million improvement from 2002.

As of December 31, 2003, SEII had two equity investments as follows:

| | 2003 | | 2002 | |
|---|---|---|---|---|
| | Per cent Ownership | Total Invested (millions) | Per cent Ownership | Total Invested (millions) |
| Gas Sur S.A. | 30.0 | $ 13.6 | 30.0 | $ 12.6 |
| Integrated Gas Services de Mexico, S. de R.L. de C.V. | 40.1 | 10.7 | 12.4 | 3.7 |
| | | $ 24.3 | | $ 16.3 |

Gas Sur S.A. (Gas Sur) is a natural gas distribution company in Chile. Gas Sur was formed to capitalize on the introduction of natural gas to the Chilean marketplace, an energy alternative that is safer, more convenient and more cost effective than bottled propane, the existing fuel of choice. With more than 24,000 customers, Gas Sur achieved 2003 net earnings of approximately $0.4 million. Gas Sur anticipates increased earnings in 2004.

Through its investment in Igasamex USA Ltd., SEII owns a 40.1 per cent equity investment in Integrated Gas Services de Mexico, S. de R.L. de C.V. (Igasamex). Igasamex is a Mexico City based company which provides natural gas transportation services to Mexico's industrial sector. Igasamex currently flows gas on 18 laterals (a pipeline in a transmission system which branches away from the central and primary part of the system), and serves a wide range of industrial customers, including the textile, automotive, food processing, pulp and paper and consumer products sectors. In 2003, Igasamex achieved net earnings of approximately $1.0 million. Igasamex anticipates increased earnings in 2004.

### Swan Valley Gas Corporation (SVGC)

SVGC was formed in 2000 to own and operate a natural gas distribution utility in the Swan Valley area in western Manitoba. New customer connections have not occurred as quickly as expected resulting in a revenue shortfall. SVGC's loss for 2003 was $0.5 million compared to a loss of $0.2 million for 2002. Cost reduction measures along with further marketing efforts will be pursued in 2004 to lower costs and increase revenue.

### Saskatchewan First Call Corporation (*Sask 1st Call*)

*Sask 1st Call* has established a database for the location of certain oil, natural gas and other pipeline systems located in Saskatchewan. Primarily for safety reasons, *Sask 1st Call* provides a service whereby landowners and other stakeholders may contact *Sask 1st Call* to determine the location of pipeline facilities. Although, *Sask 1st Call* commenced operations later than anticipated, it issued in excess of 49,000 line locates during 2003. This entity provides essential line location services to its members more efficiently than the former process and is intended to break even when fully operational.

**SaskEnergy Nova Scotia Holdings Ltd. (SENSHL)**

SENSHL holds the Corporation's 50.1 per cent investment in Heritage Gas Limited (Heritage Gas). On August 16, 2002, Heritage Gas applied for a full regulation class franchise for a specific area in Nova Scotia pursuant to *The Gas Distribution Act (Nova Scotia)*. The Nova Scotia Utility and Review Board (NSUARB) awarded Heritage Gas the franchise to distribute natural gas to all or part of six counties in the Province of Nova Scotia on February 7, 2003 which Heritage Gas accepted on June 3, 2003. The franchise term is 25 years. Since the date of franchise acceptance, Heritage Gas has acquired and constructed natural gas distribution facilities and undertaken those activities necessary to establish an operational natural gas distribution utility. A license to operate was issued by the NSUARB on December 19, 2003.

Shareholders have advanced $9.0 million to Heritage Gas in proportion to their interest. As at December 31, 2003 SaskEnergy had advanced $4.5 million consisting of a shareholder loan amounting to $2.5 million and an equity investment of $2.0 million.

## *The Balanced Scorecard – Measuring Results*

SaskEnergy measures its performance on key success factors through a process known as The Balanced Scorecard. The financial targets in The Balanced Scorecard are based on standard financial performance measures for regulated Canadian natural gas distribution and transmission utilities.

**The Balanced Scorecard**

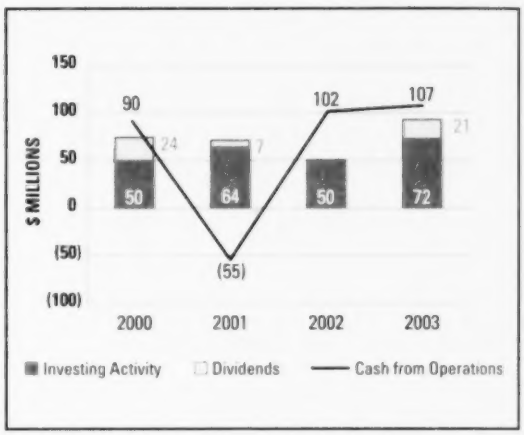
**Shareholder Value**

| Objective | Measures | Actual 2002 | Actual 2003 | Target 2003 | Target 2004 | Target 2005 | Target 2006 | Target 2007 | Target 2008 |
|---|---|---|---|---|---|---|---|---|---|
| Provide risk adjusted returns to the shareholder and grow enterprise value | **Annual Return to the Shareholder (excluding GCVA effects)** | | | | | | | | |
| | Consolidated Net Earnings from Operations ($ millions) | 32 | 68 | 51 | 67 | 62 | 59 | 59 | 60 |
| | TransGas Rate of Return on Equity | 12.3% | 14.4% | 10.6% | 11.0% | 11.0% | 11.0% | 11.0% | 11.0% |
| | SaskEnergy Rate of Return on Equity | 1.9% | 9.9% | 10.5% | 10.5% | 10.5% | 10.5% | 10.5% | 10.5% |
| | **Annual Return to the Shareholder (including GCVA effects)** | | | | | | | | |
| | Pay Dividend to Crown Investments Corporation ($ millions) | 5 | 27 | 53 | 66 | 49 | 38 | 38 | 39 |
| | **Financial Condition (including GCVA effects)** | | | | | | | | |
| | Consolidated Debt-to-Equity Ratio | 73/27 | 72/28 | 70/30 | 72/28 | 69/31 | 68/32 | 66/34 | 64/36 |

## *Liquidity and Capital Resources*

### Cash flow and capital expenditures

SaskEnergy requires capital funding to finance the purchase and construction of assets, maintain system integrity and meet its growth objectives. This capital is typically generated through operating activities and by borrowing from the Province of Saskatchewan. As illustrated, in 2000 SaskEnergy generated sufficient cash from operations to meet the dividend requirements of Crown Investments Corporation of Saskatchewan (CIC), internally finance capital expenditures, and reduce the level of outstanding debt. In 2001, accumulations in the GCVA reduced cash from operations and limited SaskEnergy's ability to further reduce its debt obligations. In 2002 and 2003, SaskEnergy's regained the financial capacity to fund capital expenditures, operating expenditures and dividends from internally generated cash.




## *Risk Management*

The transmission, storage, distribution and sale of natural gas presents a range of business and financial risks. SaskEnergy's philosophy with respect to risk management is to take only those risks for which it has appropriate resources, expertise and financial capacity to manage. In addition, the nature of accepted risks must be understood, as well as the impact these risks may have on operations, reputation and financial condition. The appropriate policies and procedures must be in place to respond to these risks. SaskEnergy manages the risks presented below in accordance with policies and guidelines established by the Board of Directors.

### Price risk

SaskEnergy's exposure to natural gas price risk results primarily when it purchases natural gas from suppliers at indexed or market prices and resells this natural gas to its customers at rates that are generally fixed for a specific term. The risk of natural gas costs rising above the rate at which the natural gas is sold to customers can be mitigated through a natural gas price hedging program. Also the GCVA allows accumulated differences between the projected cost of natural gas and the actual cost of natural gas to be recovered from or refunded to customers in subsequent periods.

SaskEnergy is also exposed to natural gas price risk in its natural gas marketing business. The natural gas price risk is subject to the Natural Gas Marketing Risk Management Policy, which limits the amount of exposure to price volatility and establishes a program to measure, monitor and report on natural gas price risk daily.

### Interest rate risk

Like other natural gas distribution and transmission utilities, SaskEnergy has a significant capital investment in physical assets. The majority of its capital expenditures have been financed through debt. Consequently, changes in interest rates can affect financial performance. SaskEnergy manages interest rate risk by requiring all long-term borrowing to be financed with long-term fixed rate debt thereby minimizing the impact of changing interest rates on financial results. In addition, SaskEnergy may use Forward Rate Agreements, Swaps, and Options to hedge short-term debt against changes in short-term interest rates.

### Winter weather

In Saskatchewan, variability in winter weather temperature has a direct impact on natural gas consumption.

### Provincial economic and market factors

Economic growth within the Province is critical to the continued expansion of SaskEnergy's core business. SaskEnergy currently serves more than 90 per cent of the communities in the Province. Opportunities to expand infrastructure are dependent upon economic growth and it is increasingly difficult to economically expand service to areas within the Province which do not currently receive natural gas distribution service. In addition, conservation initiatives by customers have reduced the average volume of natural gas usage per customer, population is in decline in certain rural service areas and the growth of urban centres has put added pressure on urban distribution systems. While SaskEnergy's transportation pipeline system has benefited significantly from the development of the Shackleton area, the age and declining reserve life of the Western Canadian Sedimentary Basin remains a longer term issue.

### Operational risk

Operating a natural gas distribution, transmission and storage utility involves many risks common to all utilities such as unusual or unexpected operating, environmental and weather conditions, as well as safety concerns, acts of civil disobedience, or disruptions which could result in personal injury, loss of life or damage to property. SaskEnergy mitigates its operational risks through public awareness programs, employee and operator training, operating manuals and procedures, and safety programs. In addition the financial impact of these risks is mitigated, where possible, through the purchase of insurance.

### Credit risk

SaskEnergy is at risk of financial loss in the event that counterparties to contracts or customers who have received services fail to fulfill their obligations. SaskEnergy mitigates its credit risk by requiring customers to post deposits prior to receiving service, reviewing the credit worthiness of large customers and contractual counterparties, limiting the maximum amount of credit extended to any customer, and by continual monitoring of customer and counterparty credit. In addition, SaskEnergy provides for an allowance for uncollectible accounts in the normal course of business. These policies and procedures ensure that the financial impact of customer or counterparty default is minimized.

### Regulatory risk

Regulatory risk is the uncertainty presented by the regulatory environment within which a utility operates. In July 2000, the Government of Saskatchewan introduced the Saskatchewan Rate Review Panel which functions as a ministerial advisory committee to the Minister of CIC. The rate decisions made by Cabinet can directly affect financial results.

### Environmental risk

Environmental risks are inherent in the business of natural gas transmission and distribution. Natural gas is lighter than air and dissipates quickly when accidentally released into the atmosphere which reduces the risk of explosion relative to other volatile hydrocarbons. Gathering, compression, storage, transmission and distribution of natural gas involves the use of certain chemicals and materials that are considered hazardous and require special handling procedures. The environmental risks presented by these materials are mitigated by proper handling and containment procedures, and employee training.

Canada's commitment to reduce greenhouse gas emissions, as outlined in the Kyoto Agreement, will have an undetermined impact on the Corporation. Studies by industry associations during 2003 have assessed the approach proposed by the federal government for the industrial sector (referred to as Large Final Emitters) which includes a combination of regulatory measures and emissions trading and credits. Most of the work being conducted by the industry associations has focused on the natural gas distribution sector. However the impact on the natural gas transmission sector will also be addressed.

## *Critical Accounting Policies and Estimates*

The Corporation prepares its financial statements in accordance with Canadian generally accepted accounting principles (GAAP) applied on a consistent basis and includes certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue, and expenses. The accounting policies are summarized in Note 2 to the accompanying Consolidated Financial Statements. Accounting policies and estimates with significant impact are as follows:

### Gas cost variance account

SaskEnergy uses a Gas Cost Variance Account to accumulate the difference between commodity sales revenue and the related cost of gas sold. Subject to approval of Cabinet, balances are either recovered from or refunded to customers in future commodity rates. This account is used to ensure that SaskEnergy neither earns a profit nor incurs a loss on the sale of commodity over the long term. The change in the balance of the GCVA is included as a component of the cost of gas sold. As a result a profit or a loss on commodity sales may occur during a fiscal period. Commodity rate changes would be expected to result in an offsetting profit or loss in subsequent periods.

As at April 30, 2003, the commodity cost of gas sold exceeded commodity sales revenue by $71.9 million. On April 24, 2003, the Corporation submitted a rate application to Cabinet for a commodity rate increase. Subject to a review by the Saskatchewan Rate Review Panel (the Panel), an interim commodity rate increase was approved by Cabinet effective May 1, 2003.

Following a review by the Panel, Cabinet gave final approval to a new commodity rate effective August 1, 2003. Included in the rate decision, Cabinet reduced the amount that could be recovered from customers through the GCVA by $12.8 million. In addition, Cabinet disallowed interest that could be charged by the Corporation on any balance in the GCVA exceeding $20 million.

### Competitive gas sales

The primary purpose of the distribution utility is to supply natural gas to customers who use the natural gas primarily for heating their premises. Consumption of natural gas in Saskatchewan is cyclical and periods exist where pipeline and storage capacity are not used to their fullest extent. In order to take advantage of underutilized capacity during these off-peak periods, the distribution utility may enter into transactions whereby it purchases natural gas, places it into storage and earns a margin by selling it in the open market at a later date.

Competitive gas sales transactions may occur where the sale or purchase price is determined initially, but the settlement price is finalized at a later date. During the period between the purchase or sale of the natural gas and the date of settlement, the profit or loss is determined by comparing the purchase price to the current market price and is recorded in the statement of earnings.

### Gas price hedging

The majority of natural gas purchase contracts are priced according to a monthly average market price. To help avoid potential wide fluctuations in prices, SaskEnergy may utilize financial instruments offered by financial institutions or other counterparties to exchange a variable price for a fixed price. These financial instruments result in either the receipt of funds by the Corporation or the payment of funds to the counterparty depending on whether the market price is above or below the agreed upon fixed price. The payments made to or received from counterparties are included in the commodity cost of gas.

### Revenue recognition

Delivery and commodity revenue is recognized when natural gas is delivered to customers. Since it is not cost-effective to read all customer meters on the same day at the end of the financial reporting period, the revenue associated with the volume of gas delivered but not billed as of December 31, must be estimated. The volume of unbilled sales is determined by comparing the total volume of natural gas purchased by the distribution system to the total estimated volume of natural gas delivered to customers. Volumes purchased are reconciled to volumes billed using regular meter readings.

## *Outlook*

SaskEnergy's strategic financial direction is designed to focus on: Shareholder Value, Financial Stewardship, and Growth. SaskEnergy's future plans have been carefully assessed to ensure alignment with the goals and objectives associated with each of these perspectives.

### Shareholder value

SaskEnergy creates value for the shareholder by generating industry comparable returns, paying dividends based on 65 per cent of consolidated net earnings and protecting the financial condition of the owner's investment by maintaining a prudent capital structure. In 2004, SaskEnergy anticipates net earnings from operations of $67 million and dividend payments of $44 million (before the effects of the GCVA). In addition, the capital structure is forecast to strengthen in 2004 and progress towards the Corporation's long-term target of 65 per cent debt and 35 per cent equity.

### Financial stewardship

SaskEnergy focuses on being cost-effective and providing value to customers. SaskEnergy has developed programs to contain and reduce costs incurred in providing service, which translates into lower rates for customers.

Transmission rates remained unchanged for the three years 2000 – 2002 prior to a two per cent rate increase in January 2003. However, from August 2003 to December 2003, TransGas implemented a temporary rate reduction of four per cent to share with its customers the unexpected benefits from incremental transportation revenues earned from new natural gas reserve developments. This temporary reduction has been followed by a rate reduction of two per cent for 2004.

Similarly, SaskEnergy has adjusted its distribution delivery rates only once since 1994. Maintaining these service rates was made possible through cost control programs and innovative ways to deliver required services more efficiently.

As part of the budgeting process, SaskEnergy identified approximately $8 million in cost savings over the 2001 to 2004 timeframe by developing a program specifically designed to capture cost-saving opportunities. These efforts demonstrate SaskEnergy's commitment to its customers to prudently manage operational costs.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Growth

SaskEnergy's strategic plan focuses on investments as a means for growing the value for our owner – the people of Saskatchewan. Only through growth can SaskEnergy ensure that it will remain a vibrant, healthy and successful corporation.

The Corporation's investments can be placed into two major categories:

### Investing in Saskatchewan

SaskEnergy plans for expenditures of approximately $72 million in 2004 to support the growth and maintenance of its transmission and distribution pipeline systems. Natural gas reserve development and producer activities in the Shackleton area are expected to require additional capital expenditures in 2004. The continued development of a natural gas storage facility at Asquith will also require further capital spending in 2004.

As SaskEnergy serves a mature Saskatchewan market with extensive infrastructure throughout the Province, ensuring a safe and reliable system is a major priority. To ensure the safety and reliability of service, SaskEnergy will commit nearly 30 per cent of its capital budget in 2004 to sustaining and improving transmission and distribution-related facilities and infrastructure.

In response to its mature market development, SaskEnergy will continue to align its processes and policies to make them more inviting for economic development in Saskatchewan and to facilitate the increased usage of natural gas in emerging commercial opportunities.

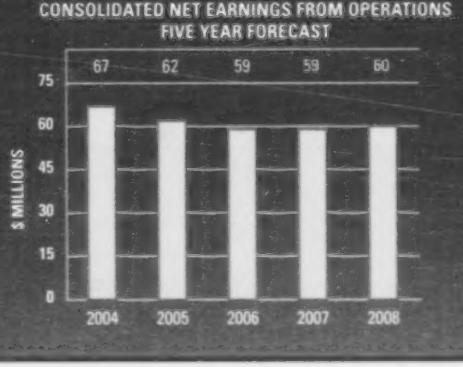
### Investing for Saskatchewan

SEII's two international investments, Gas Sur, a natural gas distribution company in Chile, and Igasamex, a natural gas midstream company in Mexico, are continuing to develop in terms of market share and presence. Through these investments, SEII expects sufficient revenues to sustain operating costs in 2004 and then begin generating a profit each year thereafter.

In 2003, Heritage Gas accepted the franchise rights to be the natural gas distributor in Nova Scotia. On December 20, 2003, the distribution pipeline system became operational in Nova Scotia. In 2004, SaskEnergy looks forward to working with its partners, the employees of Heritage Gas, and the people of Nova Scotia to ensure the successful implementation of this new natural gas distribution system and utility service.

### Financial results and factors affecting performance

SaskEnergy's Business Plan forecasts an earnings performance in 2004 that will result in stable net earnings from operations of $67 million plus an assumed recovery of $35 million in the GCVA. This will result in a total net earnings forecast of $102 million in 2004. Over the planning horizon, SaskEnergy anticipates strong, stable earnings in the range of $60 million each year. This level of financial performance is sensitive to the status of the GCVA and changes to some of the key sensitivities identified.



The following sensitivities are intended to be illustrative of the relationship between the key variables that affect financial performance and are not intended to reflect management's view as to the likelihood of this variability.

| Factor | Sensitivity | Impact on Net Earnings ($ millions) |
|---|---|---|
| 1. Winter weather | One per cent change | 0.7 |
| 2. Natural gas prices | $0.10 change per Gigajoule | 5.6 |
| 3. TransGas receipt contracted volumes | One per cent change to contracted levels | 0.6 |
| 4. Short-term interest rates | 0.25 per cent change | 0.3 |

1. SaskEnergy's revenue forecasts are based on the assumption of normal winter weather. Normal is defined to be the average weather experienced each day over the last thirty years. Variations in winter weather of one per cent from this average could impact net earnings by approximately $0.7 million.
2. Fluctuations in the market price of natural gas could impact earnings. As SaskEnergy purchases approximately 56 million Gigajoules annually, a 10 cent change in the natural gas purchase price of a Gigajoule, could impact net earnings by as much as $5.6 million if not recovered from customers.
3. TransGas revenue levels are sensitive to the capacity contracted by shippers for the transportation of their natural gas. A one per cent change to the contracted receipt transportation levels could impact both receipt and delivery transportation revenues resulting in a change of approximately $0.6 million.
4. A change to the short-term borrowing rates of 25 basis points could impact net earnings by approximately $0.3 million.

## *Regulation*

The Government of Saskatchewan established the Saskatchewan Rate Review Panel in 2000. The Saskatchewan Rate Review Panel functions as a ministerial advisory committee to the Minister of CIC. The panel's mandate is to conduct reviews of rate change requests from specific Crown corporations including SaskEnergy.

The panel provides an opinion to the Minister of CIC on the fairness and reasonableness of the proposed rate changes. It takes into consideration the interests of the customers, the applicant Crown corporation, and the public. Cabinet makes the final decision on rate change requests.

## *Crown Investments Corporation of Saskatchewan*

### Crown sector strategic plan

SaskEnergy is a Saskatchewan Crown corporation and, for governance purposes, is considered a subsidiary of CIC. CIC, also a provincial Crown corporation, is the holding company for Saskatchewan's commercial Crown corporations.

CIC and its subsidiaries developed a Crown Sector Strategic Plan to provide long-term direction to the Crown Corporation sector, and facilitate long-term planning. The plan includes a guiding vision statement for the Crown sector, its primary business purposes, common business values and strategic business objectives. SaskEnergy has developed its Corporate Strategic Direction to support CIC's five overall strategic objectives: Customer Service Excellence, Financial Health, Mandate and Role, Public Purpose, and Human Resources.

### Corporate strategic plan

SaskEnergy's Corporate Strategic Plan is directly aligned with CIC's Crown Sector Strategic Plan and overall strategic objectives.

The corporate strategic direction focuses on the core business excellence of the distribution and transportation pipeline systems. Further success will result from building on these competencies and strengths, which includes strategically investing in opportunities that grow the Corporation both in and for Saskatchewan.

## *Financial Terms*

CICA – the Canadian Institute of Chartered Accountants.

Core earnings – earnings generated from the operations of the Corporation's two major business units which are the natural gas distribution pipeline system and natural gas transmission and storage operations.

GAAP – generally accepted accounting principles. Accountants prepare financial statements in accordance with GAAP. In Canada, the recommendations of the Canadian Institute of Chartered Accountants (CICA), as found in the CICA Handbook, formally represent Canadian GAAP. The Accounting Standards Board of the CICA develops the Handbook's content regarding financial accounting. The structure of this board and its operating procedures permit the exercise of due process when formulating recommendations. This constitutes the formal process that generates Canadian GAAP.

# CONSOLIDATED FINANCIAL STATEMENTS

## Management's Responsibility for Financial Statements

The management of SaskEnergy Incorporated is responsible for the integrity of the accompanying consolidated financial statements and all other information contained in this Annual Report. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles, that are applied on a consistent basis, and include amounts based on management's informed judgments and estimates. Financial information included elsewhere in this Annual Report is consistent with the consolidated financial statements.

The Corporation's Board of Directors (the Board) is responsible for overseeing the business and affairs of the Corporation. The Board, through its Audit and Finance Committee (the Committee), is responsible for ensuring that management fulfills its financial reporting responsibilities. The Committee is composed of independent directors who are not employees of the Corporation. The Committee reviews the Management's Discussion and Analysis included in this Annual Report and meets regularly with management, internal audit and the external auditors to discuss internal controls, accounting, auditing and financial matters. The Committee recommends the appointment of the external auditors. The Committee reports its findings to the Board for its consideration in approving the consolidated financial statements and subsidiary financial statements.

Management maintains a system of internal controls to ensure the integrity of information that forms the basis of the financial statements. The internal control system ensures that: transactions are executed in accordance with proper authorization; the financial information is relevant, reliable, and accurate; and assets are appropriately accounted for and adequately safeguarded. The internal control system includes an internal audit function and an established code of conduct.

The consolidated financial statements have been audited by Deloitte & Touche LLP, Chartered Accountants as appointed by the Lieutenant Governor in Council and approved by the Crown Investments Corporation of Saskatchewan. The Auditors' Report expresses their opinion on the fairness of the financial statements prepared by management.

R.S. Clark

Ronald S. Clark
President
and Chief Executive Officer

A. Mrazek

Greg Mrazek
Vice-President, Finance & Administration
and Chief Financial Officer

## Auditors' Report

**To the Members of the Legislative Assembly**
**Province of Saskatchewan**

We have audited the consolidated statement of financial position of SaskEnergy Incorporated as at December 31, 2003 and the consolidated statements of earnings and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Regina, Saskatchewan
February 6, 2004

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION
**AS AT DECEMBER 31**

| | Note | 2003 | 2002 |
|---|---|---|---|
| | | (thousands) | |
| **ASSETS** | | | |
| CURRENT ASSETS | | | |
| Cash | | $ - | $ 1,831 |
| Accounts receivable | | 144,524 | 119,507 |
| Natural gas in storage held for resale | | 82,102 | 105,618 |
| Inventories of supplies | | 6,458 | 5,329 |
| | | 233,084 | 232,285 |
| PROPERTY, PLANT AND EQUIPMENT | 4 | 940,267 | 921,179 |
| INVESTMENTS AND OTHER ASSETS | 5 | 34,789 | 29,652 |
| NATURAL GAS IN STORAGE HELD FOR RESALE AND OPERATIONS | | 25,766 | 28,340 |
| TOTAL ASSETS | | $ 1,233,906 | $ 1,211,456 |
| **LIABILITIES AND PROVINCE'S EQUITY** | | | |
| CURRENT LIABILITIES | | | |
| Bank indebtedness | | $ 1,295 | $ - |
| Short-term debt | 6 | 110,000 | 173,200 |
| Accounts payable | | 140,985 | 121,037 |
| Dividend payable | | 10,560 | 4,460 |
| Current portion of long-term debt | 6 | 34,997 | 4,040 |
| | | 297,837 | 302,737 |
| LONG-TERM DEBT | 6 | 627,884 | 614,555 |
| TOTAL LIABILITIES | | 925,721 | 917,292 |
| PROVINCE OF SASKATCHEWAN'S EQUITY | | | |
| Equity advances | 7 | 71,531 | 71,531 |
| Retained earnings | 3 | 237,738 | 223,373 |
| Foreign currency translation adjustment | 5 | (1,084) | (740) |
| | | 308,185 | 294,164 |
| TOTAL LIABILITIES AND EQUITY | | $ 1,233,906 | $ 1,211,456 |
| COMMITMENTS AND CONTINGENCIES | 8 | | |

(See accompanying notes)

On behalf of the Board:

M Simm, Director  Emmet Reedy, Director

# CONSOLIDATED FINANCIAL STATEMENTS

## CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS

FOR THE YEAR ENDED DECEMBER 31

| | Note | 2003 | 2002 |
|---|---|---|---|
| | | | (thousands) |
| **REVENUE** | | | |
| Delivery | | $ 164,825 | $ 165,060 |
| Transportation and storage | | 80,983 | 67,649 |
| Net sales from gas marketing | 9 | 41,168 | 14,552 |
| Revenue collected for municipalities | 10 | 24,432 | 22,598 |
| Other | | 6,115 | 4,656 |
| Total revenue | | 317,523 | 274,515 |
| **EXPENSES** | | | |
| Operating and maintenance | | 114,666 | 111,798 |
| Interest | 6 | 52,075 | 52,136 |
| Amortization of property, plant and equipment | 4 | 48,759 | 47,516 |
| Payments to municipalities | 10 | 24,432 | 22,598 |
| Saskatchewan taxes and royalties | 11 | 9,239 | 9,021 |
| Total expenses | | 249,171 | 243,069 |
| Net earnings from operations before the following | | 68,352 | 31,446 |
| Commodity revenue | | 374,658 | 377,276 |
| Cost of gas sold | | 401,985 | 401,858 |
| Loss from commodity sales | | (27,327) | (24,582) |
| Net earnings | | 41,025 | 6,864 |
| Retained earnings, beginning of year | | 223,373 | 220,969 |
| Dividend | | (26,660) | (4,460) |
| Retained earnings, end of year | 3 | $ 237,738 | $ 223,373 |

(See accompanying notes)

## CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31

| | Note | 2003 | 2002 |
|---|---|---|---|
| | | (thousands) | |
| **OPERATING ACTIVITIES** | | | |
| Net earnings | | $ 41,025 | $ 6,864 |
| Add items not requiring an outlay of cash | | | |
| Amortization of property, plant and equipment | | 48,759 | 47,516 |
| Other non-cash items | | 309 | 738 |
| | | 90,093 | 55,118 |
| Net change in non-cash working capital related to operations | 12 | 17,318 | 46,640 |
| Cash provided by operating activities | | 107,411 | 101,758 |
| **INVESTING ACTIVITIES** | | | |
| Additions to property, plant and equipment | | (77,570) | (56,844) |
| Additions to investments and other assets | | (6,685) | (5,269) |
| Customer capital contributions received | | 9,723 | 9,646 |
| Decrease in natural gas in storage (non-current) | | 2,574 | 2,250 |
| Cash used in investing activities | | (71,958) | (50,217) |
| **FINANCING ACTIVITIES** | | | |
| Decrease in short-term debt | | (63,200) | (44,992) |
| Sinking fund instalments | | (4,540) | (4,040) |
| Increase in deferred charges | | (279) | - |
| Proceeds from long-term debt | | 50,000 | - |
| Dividend paid | | (20,560) | - |
| Cash used in financing activities | | (38,579) | (49,032) |
| **INCREASE (DECREASE) IN CASH** during year | | (3,126) | 2,509 |
| **CASH POSITION,** beginning of year | | 1,831 | (678) |
| **CASH POSITION,** end of year | | $ (1,295) | $ 1,831 |

Cash position consists of cash less bank indebtedness.

(See accompanying notes)

# CONSOLIDATED FINANCIAL STATEMENTS

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2003

### 1. STATUS OF THE CORPORATION

SaskEnergy Incorporated (SaskEnergy) is a Saskatchewan provincial Crown corporation operating under authority of *The SaskEnergy Act*. SaskEnergy's primary business is the transportation, distribution and storage of natural gas in Saskatchewan.

By virtue of *The Crown Corporations Act, 1993*, SaskEnergy has been designated as a subsidiary of Crown Investments Corporation of Saskatchewan (CIC), a provincial Crown corporation. Accordingly, the financial results of SaskEnergy are included in the consolidated financial statements of CIC.

As a provincial Crown corporation, SaskEnergy and its wholly owned subsidiaries are not subject to Federal or Provincial income taxes in Canada.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis and include certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from these estimations. The following accounting policies are considered to be significant:

a. Principles of consolidation

The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiaries, SaskEnergy Nova Scotia Holdings Ltd., Bayhurst Gas Limited, Many Islands Pipe Lines (Canada) Limited, Saskatchewan First Call Corporation, SaskEnergy International Incorporated, SaskEnergy Chilean Holdings I Ltd., SaskEnergy Chilean Holdings II Ltd., SaskEnergy Mexican Holdings Ltd., Swan Valley Gas Corporation, and TransGas Limited. The accounts also include the Corporation's 100 per cent ownership interest in SaskEnergy Chilean Holdings Limitada, a Chilean limited partnership and the Corporation's 50.1 per cent proportionate share of the accounts of Heritage Gas Limited. Separate audited financial statements are prepared for each of these entities.

b. Natural gas in storage

- Natural gas in storage held for resale

Natural gas in storage held for resale (both current and non-current) is stated at lower of cost and net realizable value. Natural gas held for resale removed from storage is accounted for on an average cost basis. Natural gas in storage held for resale classified as a current asset is the estimated amount of natural gas in storage to be sold in 2004 with the remainder classified as non-current.

- Natural gas in storage held for operations

Natural gas in storage held for operations is stated at cost. Natural gas in storage held for operations classified as a non-current asset is located within the Corporation's various storage facilities and is required for the ongoing operation of the storage facilities.

c. Inventories of supplies

Inventories of supplies consist primarily of pipe and general stock for construction and maintenance and are recorded at the lower of average cost or replacement cost.

d. Property, plant and equipment

Property, plant and equipment is stated at cost and includes all direct costs plus overhead charges and an allowance for interest costs related to financing construction of the related assets.

The costs of renewals and betterments which extend the economic useful life of assets are capitalized.

Retirement or sale of a major item or class of property, plant and equipment, is accounted for by relieving the asset accounts of the associated cost and accumulated amortization. The difference between the proceeds and the net book value of the assets disposed is included in earnings for the current period.

Other asset retirements are recorded by reducing the account by the cost of the asset and charging this amount, net of proceeds received, to accumulated amortization.

Amortization expense is calculated on a straight-line basis over the estimated service life of the asset. The amortization rates are as follows: (in per cent)

| | |
|---|---|
| Transmission and storage | 2.5 to 2.6 |
| Distribution | 2.5 to 3.5 |
| Gathering, treatment and compression | 2.5 to 3.5 |
| Vehicles, equipment and other | 2.5 to 50.0 |

Customer capital contributions relate to construction of new service connections. These contributions from customers are amortized on a straight-line basis over the estimated service life of the related asset.

e. Investments

The Corporation accounts for its investments in Gas Sur S.A. and Igasamex USA Ltd. using the equity method.

f. Foreign currency translation adjustment

The Corporation's foreign investments are self-sustaining, and the financial statements are translated from the functional currency into Canadian dollars using the current rate method. Translation adjustments resulting from changes in the exchange rate between the functional currency and the Canadian dollar are reflected in the foreign currency translation adjustment in the Province of Saskatchewan's Equity.

g. Revenue recognition

Delivery and commodity revenue is recognized when natural gas is delivered to customers. An estimate of gas delivered, but not billed as of December 31, is included in revenue.

Revenue is recognized when transportation, transportation-related services and storage are provided to customers. An estimate of transportation, storage and related services rendered, but not billed as of December 31, is included in revenue.

For natural gas purchased for resale, revenue is recognized in the financial statements upon completion of the delivery of natural gas.

Royalty revenue is recognized when natural gas is sold from wells subject to royalty agreements. Royalty revenue, accounts receivable and accrued revenue are subject to measurement uncertainty. These amounts are based on the Corporation's best information and judgment.

h. Cost of gas sold

The cost of gas sold includes the cost of purchasing natural gas on the open market, net hedging settlements, transportation, direct operating costs related to supply acquisition, and natural gas inventory carrying costs.

# CONSOLIDATED FINANCIAL STATEMENTS

i. Gas cost variance account

For rate setting purposes, SaskEnergy's approved selling price for natural gas is based on the principle that there is neither a profit nor a loss on natural gas sold to customers. Therefore, the Corporation established a Gas Cost Variance Account (GCVA) to accumulate differences between commodity revenue and the cost of gas sold. Subject to approval of the Government of Saskatchewan, balances accumulated in the GCVA are either recovered from or refunded to customers through future rates.

In these financial statements, amounts over-recovered or under-recovered during the year are reported as a gain or loss from commodity sales. Where the cost of gas sold exceeds commodity revenue from customers, the Government of Saskatchewan, at its discretion will decide whether the shortfall will be recovered from customers.

j. Competitive gas sales

Where the Corporation purchases natural gas in the open market at a fixed purchase price and simultaneously enters into agreements to sell this natural gas at a fixed selling price, the gain or loss is recorded at the time the transaction is settled.

In addition, the Corporation may enter into contracts that require either the physical delivery (sale) or receipt (purchase) of natural gas in a future period. Contracts may be structured so that the settlement price is determined in the future at the time of delivery or receipt. Changes in the value of the contract due to a change in market prices up to the date of settlement are recorded as gains or losses in the period of change.

k. Hedge accounting

The Corporation uses various derivative financial instruments to hedge its operating exposures to fluctuations in foreign currency exchange rates, interest rates and the price of natural gas. A Corporate Derivatives Policy and specific hedging strategies establish the guidelines within which such instruments may be used. These policies require that SaskEnergy use financial instruments only to manage risks associated with transactions undertaken in the normal course of business.

Hedge accounting is used when there is a high degree of correlation between price movements in the derivative financial instrument and the item designated as being hedged. Gains and losses are recognized in the same period as the hedged item is settled and are recorded in the statement of earnings. If correlation ceases, hedge accounting is terminated and future changes in the market value of the derivative instruments are recognized as gains or losses in the period of change.

- Natural gas price risk management

  The Corporation may hedge the purchase price and sale price of natural gas. The purchase or sale price of gas may be fixed within the contract, or referenced to a floating index price. When the price is referenced to a floating index price, financial instruments may be used as a hedge to fix the settlement amount. The types of financial instruments SaskEnergy uses to effect these hedges include natural gas price swaps, options, and swaptions traded on the over-the-counter market. In addition, SaskEnergy may use futures contracts and options on futures contracts traded on the New York Mercantile Exchange. The Corporation may sell options to generate premium revenue, which is used to offset the cost to purchase call options.

- Foreign currency exchange and interest rate risk management

  The Corporation uses financial instruments to hedge the interest rate on anticipated borrowing requirements and the foreign currency exchange rate on foreign currency denominated transactions. For the purpose of hedging interest rates, the Corporation may use forward rate agreements, options, and interest rate swaps. For the purpose of hedging the exchange rate on transactions denominated in foreign currency, SaskEnergy may use currency forwards and currency options.

l. Employees' future benefits

The Corporation provides pension plans for all eligible employees, including a defined contribution pension plan and a defined benefit pension plan. The defined contribution pension plan is governed by *The Public Employees Pension Plan Act and Regulations*. The defined benefit pension plan is governed by *The Superannuation (Supplementary Provisions) Act and Regulations*, as well as *The Power Corporation Superannuation Act*.

Under both plans the Corporation's obligations are limited to making regular payments to the plans to match contributions made by the employees for current services. When made, these contributions are charged against income.

The cost of future retirement allowance benefits earned by employees is actuarially determined using the projected benefit method and management's best estimates. Past service costs are amortized on a straight-line basis over the estimated average remaining service period of active employees.

m. Deferred financing charges

Included in deferred financing charges are issue costs, discounts resulting from the issue of long-term debt, and costs of terminating delayed start interest rate swaps relating to financing of debt. These deferred financing charges are amortized as part of interest expense over the term of the related debt on a straight-line basis.

## 3. GAS COST VARIANCE ACCOUNT

The GCVA, as at December 31, includes natural gas costs to be recovered from or refunded to customers as follows:

| | 2003 | 2002 |
|---|---|---|
| | (thousands) | |
| Commodity sales revenue | $ 374,448 | $ 377,281 |
| Less: | | |
| Cost of gas before interest on the GCVA | 404,031 | 418,038 |
| Interest on the GCVA | 1,593 | 439 |
| Loss from commodity sales during the year | 31,176 | 41,196 |
| Amounts not recoverable | (12,784) | - |
| Interest not recoverable | (1,133) | - |
| Balance, beginning of year to be collected from (refunded to) customers | 31,677 | (9,519) |
| Balance, end of year to be collected from customers in future years | $ 48,936 | $ 31,677 |

The loss from commodity sales of $31,176 thousand (2002 - $41,196 thousand) is included in the December 31, 2003 retained earnings balance of $237,738 thousand (2002 - $223,373 thousand) on the statement of financial position.

# CONSOLIDATED FINANCIAL STATEMENTS

As at April 30, 2003, the cost of gas sold exceeded commodity sales revenue by $71,926 thousand. On April 24, 2003, the Corporation submitted a rate application to the Provincial Cabinet (Cabinet) for a commodity rate increase. Subject to a review by the Saskatchewan Rate Review Panel, an interim commodity rate increase was approved by Cabinet effective May 1, 2003.

Following a review by the Saskatchewan Rate Review Panel, Cabinet gave final approval to a new commodity rate effective August 1, 2003. Included in the rate decision, Cabinet reduced the amount that could be recovered from customers through the GCVA by $12,784 thousand. In addition, Cabinet disallowed interest that could be charged by the Corporation on any balance in the GCVA over $20,000 thousand.

## 4. PROPERTY, PLANT AND EQUIPMENT

| | 2003 | | | 2002 | | |
|---|---|---|---|---|---|---|
| | (thousands) | | | | | |
| | Cost | Accumulated Amortization | Net Book Value | Cost | Accumulated Amortization | Net Book Value |
| Transmission and storage | $ 591,079 | $ 157,804 | $ 433,275 | $ 573,181 | $ 147,833 | $ 425,348 |
| Distribution | 589,744 | 157,801 | 431,943 | 566,118 | 141,704 | 424,414 |
| Gathering, treatment and compression | 151,993 | 55,199 | 96,794 | 157,780 | 55,262 | 102,518 |
| Vehicles, equipment and other | 143,865 | 77,964 | 65,901 | 134,621 | 67,578 | 67,043 |
| Royalty interest | 6,509 | 6,509 | - | 6,509 | 6,509 | - |
| Construction in progress | 23,298 | - | 23,298 | 5,943 | - | 5,943 |
| | $1,506,488 | $ 455,277 | $1,051,211 | $1,444,152 | $ 418,886 | $1,025,266 |
| Less: | | | | | | |
| Unamortized customer capital contributions (see below) | | | 110,944 | | | 104,087 |
| | | | $ 940,267 | | | $ 921,179 |

Property, plant and equipment includes $4,565 thousand (2002 - nil) which represents the Corporation's 50.1 per cent proportionate interest in Heritage Gas Limited.

a. Customer capital contributions

Customer capital contributions are required to be paid by customers to SaskEnergy to aid in construction of certain customer-specific facilities in accordance with established business policies.

| | 2003 | 2002 |
|---|---|---|
| | (thousands) | |
| Balance, beginning of year | $ 104,087 | $ 97,190 |
| Contributions received | 9,723 | 9,646 |
| Contributions amortized | (2,866) | (2,749) |
| Balance, end of year | $ 110,944 | $ 104,087 |

b. Amortization

| | 2003 | 2002 |
|---|---|---|
| | (thousands) | |
| Amortization of property, plant and equipment | $ 51,625 | $ 50,265 |
| Amortization of customer capital contributions | (2,866) | (2,749) |
| | $ 48,759 | $ 47,516 |

The composite rate of amortization (excluding the effect of customer capital contributions amortization) was 3.50 per cent during 2003 (3.55 per cent during 2002).

## 5. INVESTMENTS AND OTHER ASSETS

Investments and other assets are as follows:

| | 2003 | | 2002 | |
|---|---|---|---|---|
| | Per cent Ownership | Amount (thousands) | Per cent Ownership | Amount (thousands) |
| a. Equity investments | | | | |
| i. Gas Sur S.A. | 30.0 | $ 13,214 | 30.0 | $ 11,986 |
| ii. Igasamex USA Ltd. | 40.1 | 10,554 | 12.4 | 3,846 |
| Total equity investments | | 23,768 | | 15,832 |
| b. Deferred costs | | - | | 1,515 |
| c. Other receivables | | 122 | | - |
| d. Deferred charges | | | | |
| Unamortized deferred financing costs | | 7,080 | | 7,850 |
| Unamortized past service costs | | 3,819 | | 4,455 |
| | | 10,899 | | 12,305 |
| Total investments and other assets: | | $ 34,789 | | $ 29,652 |

a. Investments:

i. Gas Sur S.A.

Under authority of Order-in-Council 735/1998 dated December 9, 1998, the Corporation purchased a 15 per cent equity interest in Gas Sur S.A., a Chilean natural gas distribution company. On December 14, 2001, under authority of Order-in-Council 825/2001 dated November 13, 2001, the Corporation increased its equity interest in Gas Sur S.A. to 30 per cent.

On March 12, 2003, under authority of Order-in-Council 735/1998, the Corporation contributed incremental equity to Gas Sur S.A. of $1,040 thousand. The Corporation's equity interest in Gas Sur S.A. was maintained at 30 per cent as the other shareholder contributed its 70 per cent proportionate share. The total amount invested was $13,784 thousand as at December 31, 2003 (2002 – $12,740 thousand).

## CONSOLIDATED FINANCIAL STATEMENTS

The Corporation's share of the foreign currency translation adjustment resulted in a $66 thousan increase in the balance of the investment in Gas Sur S.A. (2002 – $740 thousand reduction). Th Corporation's 30 per cent share of Gas Sur S.A.'s 2003 net earnings was $118 thousan (2002 – $14 thousand loss).

The cost of the investment exceeds the Corporation's underlying share of the net boo value of Gas Sur S.A. by approximately $5,100 thousand and is not being amortized.

ii. Igasamex USA Ltd.

Under authority of Order-in-Council 879/2001 dated December 5, 2001, the Corporation purchas a 12.4 per cent equity interest in Igasamex USA Ltd. a limited liability partnership registered in th United States. Igasamex USA Ltd. owns a 100 per cent voting interest in Integrated Gas Servic de Mexico, S. de R.L. de C.V., a corporation that provides natural gas transmission services Mexico's industrial sector.

On June 30, 2003, under authority of Order-in-Council 879/2001, the Corporation increased equity interest in Igasamex USA Ltd. to 40.1 per cent. The total amount invested w $10,880 thousand as at December 31, 2003 (2002 – $3,846 thousand).

In 2002, the 12.4 per cent equity interest in Igasamex USA Ltd. was recorded using the cost bas of accounting. On June 30, 2003, the equity ownership in Igasamex USA Ltd. was increased to 40 per cent and as a result, the investment was accounted for by the equity basis of accounting fro that date.

The Corporation's share of the foreign currency translation adjustment for 2003 resulted in $410 thousand reduction in the balance of the investment in Igasamex USA Ltd. The Corporation 40.1 per cent share of Igasamex USA Ltd.'s 2003 net earnings was $84 thousand.

The cost of the investment exceeds the Corporation's underlying share of the net book value Igasamex USA Ltd. by approximately $5,240 thousand and is not being amortized.

The equity interest is held through general partnership and limited partnership units.

The Order-in-Council limits the investment in Igasamex USA Ltd. to a maximum $12,000 thousand United States dollars.

b. Deferred costs

On August 16, 2002, Heritage Gas Limited applied for a full regulation class franchise for a specific ar in Nova Scotia pursuant to *The Gas Distribution Act (Nova Scotia)*. The Nova Scotia Utility ar Review Board (NSUARB) awarded Heritage Gas Limited the franchise to distribute natur gas to six counties in the Province of Nova Scotia on February 7, 2003 which Heritage Gas Limite accepted as of June 3, 2003. Since the date of franchise acceptance, Heritage Gas Limited has acquir and constructed gas distribution facilities and undertaken those activities necessary to establish operational natural gas distribution utility. A license to operate was issued by the NSUARB December 19, 2003. As a result, during 2003, deferred costs were transferred Heritage Gas Limited.

c. Other receivables

Other receivables is comprised of a regulatory receivable ($122 thousand). The regulatory receivab includes an accrual of the revenue deficiency in Heritage Gas Limited based on the rate base employ over the period June 3 to December 31, 2003. The return on rate base is calculated using Heritage G Limited's weighted average cost of capital as approved by the NSUARB.

## 6. LONG-TERM DEBT

| Years to Maturity | 2003 Principal Outstanding (thousands) | 2003 Average Fixed Interest Rate (per cent) | 2002 Principal Outstanding (thousands) | 2002 Average Fixed Interest Rate (per cent) |
|---|---|---|---|---|
| Province of Saskatchewan | | | | |
| 1 - 5 | $ 321,079 | 8.4 | $ 245,954 | 8.6 |
| 6 - 10 | 169,136 | 6.7 | 194,261 | 7.5 |
| 16 - 30 | 193,971 | 7.3 | 193,971 | 7.3 |
| | 684,186 | | 634,186 | |
| Less sinking fund equity | (26,121) | | (20,407) | |
| Less due within one year | (34,997) | | (4,040) | |
| Due to Province of Saskatchewan | 623,068 | | 609,739 | |
| Other | 4,816 | 13.5 | 4,816 | 13.5 |
| Total long-term debt | $ 627,884 | | $ 614,555 | |

a. Sinking funds

Under conditions attached to certain advances from the Province of Saskatchewan's General Revenue Fund, SaskEnergy is required to (on an annual basis) invest an amount equal to one per cent of the related outstanding debt. This investment is referred to as a sinking fund. These funds are administered by the Province of Saskatchewan's Department of Finance. The investments held in these sinking funds are primarily Province of Saskatchewan debt instruments. The yield on these investments was 5.20 per cent for 2003 (5.36 per cent for 2002).

b. Maturity dates

Maturity dates are equivalent to interest rate repricing dates.

c. Short-term debt

During 2003, the Corporation borrowed funds on a short-term basis from the Province of Saskatchewan's General Revenue Fund at an average interest rate of 2.9 per cent (2002 – 4.0 per cent).

Short-term debt at December 31, 2003 consists of $110,000 thousand (2002 – $173,200 thousand) that was due to the Province of Saskatchewan's General Revenue Fund with an interest rate of 2.7 per cent (2002 – 2.7 per cent).

d. Principal repayments

Principal repayments and sinking fund instalments due in each of the next five years are as follows:

| | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|
| | | | (thousands) | | |
| Principal | $ 30,457 | $ 101,195 | $ 66,597 | $ 47,705 | $ 75,126 |
| Sinking fund instalments | 4,540 | 4,540 | 3,790 | 3,790 | 3,790 |
| Total | $ 34,997 | $ 105,735 | $ 70,387 | $ 51,495 | $ 78,916 |

# CONSOLIDATED FINANCIAL STATEMENTS

e. Interest expense

Interest expense was as follows:

| | 2003 | 2002 |
|---|---|---|
| | (thousands) | |
| Interest expense on long-term debt | $ 52,876 | $ 50,468 |
| Interest expense on short-term debt | 3,050 | 4,059 |
| Amortization of deferred financing costs | 1,053 | 1,111 |
| Interest on cost of gas sold | (3,527) | (2,387) |
| Sinking fund earnings | (1,173) | (937) |
| Interest capitalized | (204) | (178) |
| | $ 52,075 | $ 52,136 |

Cash interest paid during 2003 on long-term debt was $53,091 thousand (2002 – $50,466 thousand).

## 7. EQUITY ADVANCES

The Corporation does not have share capital. However, the Corporation has received advances from CIC to form its equity capitalization. The advances reflect an equity investment in the Corporation by CIC.

## 8. FINANCIAL INSTRUMENTS, COMMITMENTS AND CONTINGENCIES

### FINANCIAL INSTRUMENTS

a. Fair value of financial instruments

The fair value of the Corporation's financial instruments is listed below:

| | 2003 | | 2002 | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| | (thousands) | | | |
| Long-term debt | $ 689,002 | $ 790,799 | $ 639,002 | $ 741,938 |
| Sinking fund equity | 26,121 | 27,536 | 20,407 | 21,299 |
| Natural gas price hedges | | | | |
| owed to (by) SaskEnergy: | | | | |
| - swaps | - | (13,986) | - | (12,498) |
| - options | 412 | 751 | - | - |
| Interest rate hedges | | | | |
| owed to (by) SaskEnergy: | | | | |
| - forward rate agreements | (6) | (145) | - | (129) |

The fair values of the above instruments were based on the following:

i. Long-term debt - The present value of future cash flows discounted at the market rate of interest for the equivalent Province of Saskatchewan debt instruments.

ii. Sinking fund equity - The market value of the investments held in the sinking fund as at year end.

iii. Natural gas price swaps - The relevant index price in effect as at year end.

iv. Natural gas price options - The relevant index price in effect as at year end.

v. Interest rate hedges - Closing quotations from the counterparty as to the amount to settle the contract as at year end.

The carrying values of other financial instruments (accounts receivable, accounts payable, dividends payable and short-term debt) approximate fair value.

b. The Corporation has entered into forward purchase agreements to purchase 1.6 petajoules of natural gas during 2004.

c. The Corporation has entered into natural gas price swaps with counterparties, to fix the purchase price for a total of 1.6 petajoules in 2005 and 2006. The natural gas purchased in 2005 and 2006 will be held for operations.

d. The Corporation has entered into forward sale agreements to deliver 5.4 petajoules of natural gas during 2004 and 2005. The Corporation has entered into natural gas price swaps, to fix the final selling price for the 5.4 petajoules committed for sale during 2004 and 2005.

e. Credit risk management

The Corporation extends credit to its customers in the normal course of business and is at risk of loss in the event of non-performance by counterparties on certain of the financial instruments described above. To reduce its credit risk, SaskEnergy has established policies and procedures to monitor and limit the amount of credit extended to its customers and counterparties.

f. Guarantees

SaskEnergy Incorporated has granted a guarantee related to certain obligations established under the Gas Sur S.A. Shareholders' Agreement. The guarantee is expressly limited to $5,000 thousand United States dollars (USD).

g. Letters of credit

i. The Corporation has posted a $3,006 thousand United States dollar denominated letter of credit in favour of Bank One, N.A., a United States bank. The letter of credit was used as collateral for the Corporation's share of a line of credit Bank One, N.A. has granted to Igasamex Bajio, S. de R.L. de C.V., a wholly owned subsidiary of Integrated Gas Services de Mexico, S. de R.L. de C.V.

Bank One, N.A. may draw upon this letter of credit if Igasamex defaults under the terms of its loan agreement with Bank One, N.A.

ii. The Corporation has posted a $10,000 thousand letter of credit with NGX Financial Inc. (NGX) as security for gas purchase and sales transactions conducted by SaskEnergy on the NGX electronic natural gas exchange in Alberta. NGX may only draw on the letter of credit if SaskEnergy fails to make timely payment for, or delivery of natural gas as per the related contract. The posting of letters of credit is designed to ensure the security of the contracts traded on the NGX. All participants in the NGX are required to post security.

iii. The Corporation has posted a $20 thousand letter of credit to Saskatchewan Industry and Resources.

### LEASES

The Corporation leases natural gas storage facilities near Regina, Saskatchewan. The base lease payments are as follows: (thousands)

| 2004 | 2005 | 2006 | 2007 | 2008 | Thereafter | Total |
|---|---|---|---|---|---|---|
| $226 | $195 | $199 | $204 | $210 | $547 | $1,581 |

## 9. NET SALES FROM GAS MARKETING

Net sales from gas marketing include the following:

| | 2003 | 2002 |
|---|---|---|
| | (thousands) | |
| Competitive gas sales | $ 271,651 | $ 331,103 |
| Cost of gas | 230,483 | 316,551 |
| Margin | $ 41,168 | $ 14,552 |

Of the $271,651 thousand in gross revenue from natural gas sales noted above, $21,658 thousand (2002 - $13,378 thousand) was generated from natural gas purchased from an affiliate at nil cost. The consideration was equal to the affiliate's carrying value.

## 10. REVENUE COLLECTED FOR AND PAID TO MUNICIPALITIES

a. Natural gas distribution

In accordance with regulations under *The SaskEnergy Act*, SaskEnergy is required to remit to 109 urban municipalities an amount calculated as either five per cent or three per cent of natural gas sales to customers within the respective municipality. These municipal payments are charged to customers and reported as revenue collected for municipalities. These amounts are remitted to the respective municipalities and reported as payments to municipalities on the statement of earnings and retained earnings. In 2003, revenue collected and paid to municipalities was $19,149 thousand (2002 - $18,637 thousand).

b. Natural gas transmission

In accordance with regulations under *The SaskEnergy Act*, TransGas Limited (TransGas) is required to collect from specific customers an amount based on the value of natural gas transported on their behalf. TransGas in turn pays the revenue collected to the certain municipalities. The revenue collected is classified as revenue collected for municipalities, and the expense paid is classified as payments to municipalities on the statement of earnings and retained earnings. In 2003, revenue collected and paid to municipalities was $5,283 thousand (2002 - $3,961 thousand).

## 11. SASKATCHEWAN TAXES AND ROYALTIES

Saskatchewan taxes and royalties include the following:

| | 2003 | 2002 |
|---|---|---|
| | (thousands) | |
| Corporate capital tax | $ 4,615 | $ 6,080 |
| Royalties | 3,460 | 1,926 |
| Mitigation payments and property taxes | 1,164 | 1,015 |
| | $ 9,239 | $ 9,021 |

The above amounts do not include Saskatchewan Provincial Sales Tax payments.

## 12. NET CHANGE IN NON-CASH WORKING CAPITAL

| | 2003 | 2002 |
|---|---|---|
| | (thousands) | |
| Accounts receivable | $ (25,017) | $ 26,204 |
| Natural gas in storage – held for resale | 23,516 | (7,818) |
| Prepaid expenses | - | 36,506 |
| Inventories of supplies | (1,129) | (18) |
| Accounts payable | 19,948 | (8,234) |
| | $ 17,318 | $ 46,640 |

## 13. RELATED PARTY TRANSACTIONS

Included in these consolidated financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as related parties).

Routine operating transactions with these related parties are settled at exchange amounts which approximate prevailing market prices under normal trade terms. Transactions during the year, and amounts outstanding at year end, are as follows:

| | 2003 | 2002 |
|---|---|---|
| | (thousands) | |
| Revenue | $ 42,090 | $ 31,378 |
| Operating expenses | 27,577 | 23,680 |
| Customer capital contributions | 3,345 | 2,567 |
| Accounts receivable | 1,505 | 2,346 |
| Accounts payable | 704 | 651 |

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Province of Saskatchewan's Department of Finance on all its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other amounts and transactions due to and from related parties and the terms of settlement are described separately in these financial statements and the notes thereto.

## 14. EMPLOYEES' FUTURE BENEFITS

a. Pension plans

Substantially all employees of the Corporation are members of either a defined contribution or a defined benefit pension plan. During the year, the Corporation contributed $2,819 thousand (2002 - $2,705 thousand) on behalf of employees for current services.

# CONSOLIDATED FINANCIAL STATEMENTS

b. Retiring allowance plan

The defined benefit retiring allowance plan for management employees and members of the Communications, Energy and Paperworkers Union, Local 649 is as follows:

| | 2003 | 2002 |
|---|---|---|
| | (thousands) | |
| Accrued benefit liability | $ 10,868 | $ 9,828 |
| Benefits paid during the year | 800 | 672 |
| Net expense | 2,295 | 1,219 |

The significant actuarial assumptions adopted in measuring the Corporation's accrued benefit liability at December 31 are:

| | 2003 | 2002 |
|---|---|---|
| Discount rate | 5.00 per cent | 5.25 per cent |
| Inflation rate | 3.00 per cent | 3.00 per cent |
| Average remaining employee service life (years) | 8.6 | 8.6 |

## 15. SEGMENTED INFORMATION

SaskEnergy operates predominantly in the following two industry segments:

**Distribution** (Distribution Division of SaskEnergy) provides natural gas distribution services to the Province of Saskatchewan.

**Transportation** (TransGas Limited) operates the major natural gas transmission pipeline system within Saskatchewan providing open access transmission services including gathering, compression and natural gas processing to end use customers, marketers and export producers. This company also provides natural gas storage services.

A) Statement of Earnings (millions of dollars)

| | Distribution | | Transportation | | Other[1] | | Intercompany[2] | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2003** | 2002 | **2003** | 2002 | **2003** | 2002 | **2003** | 2002 | **2003** | 2002 |
| **REVENUE** | | | | | | | | | | |
| Delivery revenue | **171.4** | 169.8 | **-** | - | **0.6** | 0.6 | **(7.2)** | (5.3) | **164.8** | 165.1 |
| Transportation and storage | **-** | - | **134.3** | 123.3 | **3.6** | 3.6 | **(56.9)** | (59.3) | **81.0** | 67.6 |
| Net sales from gas marketing | **-** | - | **-** | 28.3 | **35.3** | - | **5.9** | (13.7) | **41.2** | 14.6 |
| Revenue collected for municipalities | **19.1** | 18.6 | **5.3** | 4.0 | **-** | - | **-** | - | **24.4** | 22.6 |
| Other | **5.7** | (2.0) | **-** | - | **7.5** | 4.6 | **(7.1)** | 2.1 | **6.1** | 4.7 |
| Revenue | **196.2** | 186.4 | **139.6** | 155.6 | **47.0** | 8.8 | **(65.3)** | (76.2) | **317.5** | 274.6 |
| **EXPENSES** | | | | | | | | | | |
| Operating and maintenance | **113.6** | 118.2 | **54.9** | 51.2 | **7.5** | 2.5 | **(61.3)** | (60.1) | **114.7** | 111.8 |
| Interest | **17.9** | 18.9 | **27.9** | 28.8 | **1.7** | 1.0 | **4.6** | 3.4 | **52.1** | 52.1 |
| Amortization of capital assets | **23.5** | 22.9 | **23.1** | 24.0 | **2.2** | 0.7 | **-** | - | **48.8** | 47.6 |
| Payments to municipalities | **19.1** | 18.6 | **5.3** | 4.0 | **-** | - | **-** | - | **24.4** | 22.6 |
| Saskatchewan taxes and royalties | **2.9** | 4.0 | **2.2** | 4.3 | **4.1** | 0.7 | **-** | - | **9.2** | 9.0 |
| Expenses | **177.0** | 182.6 | **113.4** | 112.3 | **15.5** | 4.9 | **(56.7)** | (56.7) | **249.2** | 243.1 |
| Net earnings from operations before the following | **19.2** | 3.8 | **26.2** | 43.3 | **31.5** | 3.9 | **(8.6)** | (19.5) | **68.3** | 31.5 |
| Commodity revenue | **374.4** | 377.3 | **-** | - | **0.4** | 0.3 | **(0.1)** | (0.3) | **374.7** | 377.3 |
| Cost of gas sold | **405.6** | 418.5 | **-** | - | **0.7** | 0.3 | **(4.3)** | (16.9) | **402.0** | 401.9 |
| Net revenue (loss) from commodity sales | **(31.2)** | (41.2) | **-** | - | **(0.3)** | - | **4.2** | 16.6 | **(27.3)** | (24.6) |
| Net earnings (loss) | **(12.0)** | (37.4) | **26.2** | 43.3 | **31.2** | 3.9 | **(4.4)** | (2.9) | **41.0** | 6.9 |

B) Statement of Financial Position (millions of dollars)

| | Distribution | | Transportation | | Other[1] | | Intercompany[2] | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2003** | 2002 | **2003** | 2002 | **2003** | 2002 | **2003** | 2002 | **2003** | 2002 |
| Current assets | **228.3** | 202.5 | **42.9** | 54.6 | **7.8** | 5.4 | **(45.9)** | (30.2) | **233.1** | 232.3 |
| Property, plant & equipment, & natural gas in storage | **404.4** | 400.1 | **522.5** | 529.1 | **39.1** | 20.3 | **-** | - | **966.0** | 949.5 |
| Investments & other assets | **7.1** | 7.8 | **4.5** | 5.2 | **24.0** | 15.8 | **(0.8)** | 0.8 | **34.8** | 29.6 |
| Total assets | **639.8** | 610.4 | **569.9** | 588.9 | **70.9** | 41.5 | **(46.7)** | (29.4) | **1,233.9** | 1,211.4 |
| Current liabilities | **175.9** | 151.6 | **79.5** | 61.6 | **23.9** | 10.3 | **18.5** | 79.2 | **297.8** | 302.7 |
| Long-term debt | **251.6** | 266.1 | **314.5** | 335.1 | **15.5** | 13.6 | **46.3** | (0.3) | **627.9** | 614.5 |
| Total liabilities | **427.5** | 417.7 | **394.0** | 396.7 | **39.4** | 23.9 | **64.8** | 78.9 | **925.7** | 917.2 |
| Total equity | **212.3** | 192.7 | **175.9** | 192.2 | **31.5** | 17.6 | **(111.5)** | (108.3) | **308.2** | 294.2 |
| Total liabilities and equity | **639.8** | 610.4 | **569.9** | 588.9 | **70.9** | 41.5 | **(46.7)** | (29.4) | **1,233.9** | 1,211.4 |

[1] The Other category includes Many Islands Pipelines (Canada) Limited, Bayhurst Gas Limited, Saskatchewan First Call Corporation, SaskEnergy International Incorporated, Swan Valley Gas Corporation, and SaskEnergy Nova Scotia Holdings Ltd.

[2] The Intercompany category includes general corporate assets, liabilities, revenue and expenses, and also reflects the elimination of intercompany transactions required upon consolidation.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Corporation accounts for intercompany sales as if the sales were to third parties at current market prices.

The reportable segments are the major strategic business units of the Corporation. Each business unit is managed separately as it provides products and services requiring different business, technology and marketing strategies.

## 16. SASKATCHEWAN RATE REVIEW PANEL

During 2000, the Saskatchewan Rate Review Panel was established by Minister's Order. The Panel was established to conduct a review of the Corporation's request for a change in rates charged for natural gas commodity sales and delivery service. The review of proposed rate changes considers the interests of the consumer, the Corporation and the public.

## 17. COMPARATIVE FIGURES

Certain of the prior year amounts have been reclassified to conform to the current year's presentation.

# FIVE-YEAR FINANCIAL SUMMARY

| | Distribution | | | | | Transportation | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| millions of dollars | 2003 | 2002 | 2001 | 2000 | 1999 | 2003 | 2002 | 2001 | 2000 | 1999 |
| **A. Statement of Earnings** | | | | | | | | | | |
| REVENUE | | | | | | | | | | |
| Delivery revenue | 171.4 | 169.8 | 158.1 | 170.5 | 171.9 | - | - | - | - | - |
| Transportation and storage | - | - | - | - | - | 134.3 | 123.3 | 125.1 | 132.6 | 139.5 |
| Net sales from gas marketing | - | - | - | - | - | - | 28.3 | 35.0 | 15.4 | 7.3 |
| Revenue collected from municipalities | 19.1 | 18.6 | 16.3 | 13.3 | - | 5.3 | 4.0 | 5.8 | 4.8 | - |
| Other | 5.7 | (2.0) | 2.7 | 1.8 | 4.7 | - | - | - | - | - |
| Revenue | 196.2 | 186.4 | 177.1 | 185.6 | 176.6 | 139.6 | 155.6 | 165.9 | 152.8 | 146.8 |
| EXPENSES | | | | | | | | | | |
| Operating and maintenance | 113.6 | 118.2 | 116.8 | 114.4 | 109.2 | 54.9 | 51.2 | 49.8 | 45.7 | 44.9 |
| Interest | 17.9 | 18.9 | 17.7 | 26.4 | 25.2 | 27.9 | 28.8 | 29.6 | 39.2 | 40.5 |
| Amortization of capital assets | 23.5 | 22.9 | 22.0 | 21.1 | 20.1 | 23.1 | 24.0 | 23.7 | 22.1 | 21.7 |
| Payments to municipalities | 19.1 | 18.6 | 16.3 | 13.3 | 10.9 | 5.3 | 4.0 | 5.8 | 4.8 | 3.3 |
| Saskatchewan taxes and royalties | 2.9 | 4.0 | 3.0 | 2.4 | 2.5 | 2.2 | 4.3 | 7.2 | 7.2 | 5.4 |
| Expenses | 177.0 | 182.6 | 175.8 | 177.6 | 167.9 | 113.4 | 112.3 | 116.1 | 119.0 | 115.8 |
| Net earnings from operations before the following | 19.2 | 3.8 | 1.3 | 8.0 | 8.7 | 26.2 | 43.3 | 49.8 | 33.8 | 31.0 |
| Commodity revenue | 374.4 | 377.3 | 310.4 | 238.0 | 150.5 | - | - | - | - | - |
| Cost of gas sold | 405.6 | 418.5 | 376.7 | 239.5 | 153.4 | - | - | - | - | - |
| Net revenue (loss) from commodity sales | (31.2) | (41.2) | (66.3) | (1.5) | (2.9) | - | - | - | - | - |
| Net earnings (loss) | (12.0) | (37.4) | (65.0) | 6.5 | 5.8 | 26.2 | 43.3 | 49.8 | 33.8 | 31.0 |
| **B. Statement of Financial Position** | | | | | | | | | | |
| Current assets | 228.3 | 202.5 | 280.5 | 211.1 | 134.3 | 42.9 | 54.6 | 58.5 | 68.8 | 38.2 |
| Property, plant & equipment, & natural gas in storage | 404.4 | 400.1 | 396.5 | 386.6 | 378.0 | 522.5 | 529.1 | 533.8 | 542.4 | 559.5 |
| Investments & other assets | 7.1 | 7.8 | 8.5 | 5.4 | 1.5 | 4.5 | 5.2 | 5.9 | 2.4 | 1.0 |
| Total assets | 639.8 | 610.4 | 685.5 | 603.1 | 513.8 | 569.9 | 588.9 | 598.2 | 613.6 | 598.7 |
| Current liabilities | 175.9 | 151.6 | 218.4 | 199.9 | 116.5 | 79.5 | 61.6 | 67.9 | 57.0 | 23.8 |
| Long-term debt | 251.6 | 266.1 | 268.0 | 215.0 | 284.4 | 314.5 | 335.1 | 338.1 | 366.3 | 399.8 |
| Total liabilities | 427.5 | 417.7 | 486.4 | 414.9 | 400.9 | 394.0 | 396.7 | 406.0 | 423.3 | 423.6 |
| Total equity | 212.3 | 192.7 | 199.1 | 188.2 | 112.9 | 175.9 | 192.2 | 192.2 | 190.3 | 175.1 |
| Total liabilities and equity | 639.8 | 610.4 | 685.5 | 603.1 | 513.8 | 569.9 | 588.9 | 598.2 | 613.6 | 598.7 |

1 - The Other category includes Many Islands Pipelines (Canada) Limited, Bayhurst Gas Limited, Saskatchewan First Call Corporation, SaskEnergy International Incorporated and Swan Valley Gas Corporation, and SaskEnergy Nova Scotia Holdings Ltd.

2 - The Intercompany category includes general corporate assets, liabilities, revenue and expenses, and also reflects the elimination of intercompany transactions required upon consolidation.

| Other [1] | | | | | Intercompany [2] | | | | | Consolidated Entity | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2003 | 2002 | 2001 | 2000 | 1999 | 2003 | 2002 | 2001 | 2000 | 1999 | 2003 | 2002 | 2001 | 2000 | 1999 |
| 0.6 | 0.6 | 0.5 | - | - | (7.2) | (5.3) | (3.5) | (4.0) | - | 164.8 | 165.1 | 155.1 | 166.5 | 171.9 |
| 3.6 | 3.6 | 3.6 | 4.1 | 3.9 | (56.9) | (59.3) | (59.9) | (64.0) | (68.1) | 81.0 | 67.6 | 68.8 | 72.7 | 75.3 |
| 35.3 | - | - | - | - | 5.9 | (13.7) | 3.5 | 2.1 | 5.5 | 41.2 | 14.6 | 38.5 | 17.5 | 12.8 |
| - | - | - | - | - | - | - | - | - | - | 24.4 | 22.6 | 22.1 | 18.1 | - |
| 7.5 | 4.6 | 6.1 | 4.3 | 3.0 | (7.1) | 2.1 | (4.4) | (3.5) | (2.4) | 6.1 | 4.7 | 4.4 | 2.6 | 5.3 |
| 47.0 | 8.8 | 10.2 | 8.4 | 6.9 | (65.3) | (76.2) | (64.3) | (69.4) | (65.0) | 317.5 | 274.6 | 288.9 | 277.4 | 265.3 |
| 7.5 | 2.5 | 2.3 | 2.0 | 1.7 | (61.3) | (60.1) | (59.3) | (62.5) | (60.8) | 114.7 | 111.8 | 109.6 | 99.6 | 95.0 |
| 1.7 | 1.0 | 1.3 | 1.1 | 1.0 | 4.6 | 3.4 | 4.6 | (0.1) | 0.2 | 52.1 | 52.1 | 53.2 | 66.6 | 66.9 |
| 2.2 | 0.7 | 1.5 | 1.4 | 1.5 | - | - | - | (0.1) | - | 48.8 | 47.6 | 47.2 | 44.5 | 43.3 |
| - | - | - | - | - | - | - | - | - | - | 24.4 | 22.6 | 22.1 | 18.1 | 14.2 |
| 4.1 | 0.7 | 0.6 | 0.5 | 0.5 | - | - | - | - | (0.1) | 9.2 | 9.0 | 10.8 | 10.1 | 8.3 |
| 15.5 | 4.9 | 5.7 | 5.0 | 4.7 | (56.7) | (56.7) | (54.7) | (62.7) | (60.7) | 249.2 | 243.1 | 242.9 | 238.9 | 227.7 |
| 31.5 | 3.9 | 4.5 | 3.4 | 2.2 | (8.6) | (19.5) | (9.6) | (6.7) | (4.3) | 68.3 | 31.5 | 46.0 | 38.5 | 37.6 |
| 0.4 | 0.3 | 0.1 | - | - | (0.1) | (0.3) | - | - | (4.0) | 374.7 | 377.3 | 310.5 | 238.0 | 146.5 |
| 0.7 | 0.3 | 0.1 | - | - | (4.3) | (16.9) | (4.9) | (7.4) | (5.9) | 402.0 | 401.9 | 371.9 | 232.1 | 147.5 |
| (0.3) | - | - | - | - | 4.2 | 16.6 | 4.9 | 7.4 | 1.9 | (27.3) | (24.6) | (61.4) | 5.9 | (1.0) |
| 31.2 | 3.9 | 4.5 | 3.4 | 2.2 | (4.4) | (2.9) | (4.7) | 0.7 | (2.4) | 41.0 | 6.9 | (15.4) | 44.4 | 36.6 |
| 7.8 | 5.4 | 5.2 | 4.2 | 1.8 | (45.9) | (30.2) | (58.9) | (62.4) | (31.3) | 233.1 | 232.3 | 285.3 | 221.7 | 143.0 |
| 39.1 | 20.3 | 20.6 | 19.3 | 16.1 | - | - | 1.2 | (0.3) | (0.1) | 966.0 | 949.5 | 952.1 | 948.0 | 953.5 |
| 24.0 | 15.8 | 12.9 | 7.4 | 5.0 | (0.8) | 0.8 | (0.5) | 0.1 | (0.1) | 34.8 | 29.6 | 26.8 | 15.3 | 7.4 |
| 70.9 | 41.5 | 38.7 | 30.9 | 22.9 | (46.7) | (29.4) | (58.2) | (62.6) | (31.5) | 1,233.9 | 1,211.4 | 1,264.2 | 1,185.0 | 1,103.9 |
| 23.9 | 10.3 | 9.2 | 13.0 | 6.3 | 18.5 | 79.2 | 56.6 | (60.3) | (22.4) | 297.8 | 302.7 | 352.1 | 209.6 | 124.2 |
| 15.5 | 13.6 | 13.7 | 6.7 | 7.6 | 46.3 | (0.3) | (0.2) | 79.5 | - | 627.9 | 614.5 | 619.6 | 667.5 | 691.8 |
| 39.4 | 23.9 | 22.9 | 19.7 | 13.9 | 64.8 | 78.9 | 56.4 | 19.2 | (22.4) | 925.7 | 917.2 | 971.7 | 877.1 | 816.0 |
| 31.5 | 17.6 | 15.8 | 11.2 | 9.0 | (111.5) | (108.3) | (114.6) | (81.8) | (9.1) | 308.2 | 294.2 | 292.5 | 307.9 | 287.9 |
| 70.9 | 41.5 | 38.7 | 30.9 | 22.9 | (46.7) | (29.4) | (58.2) | (62.6) | (31.5) | 1,233.9 | 1,211.4 | 1,264.2 | 1,185.0 | 1,103.9 |

# CORPORATE GOVERNANCE

## A. Authority

SaskEnergy is a statutory Crown corporation governed by *The SaskEnergy Act* and *The SaskEnergy Regulations*. The Board of Directors oversees the management of the Corporation and holds management accountable for the Corporation's performance. Through the Chair, the Board of Directors is accountable to the Minister Responsible for SaskEnergy, who functions as a link between the Corporation and Cabinet, as well as the Provincial Legislature.

## B. Board Responsibilities

The Board is responsible for the stewardship of the Corporation. In carrying out this responsibility, the Board participates in the Corporation's strategic planning process each year and approves the strategic direction and corporate plan. The Board also exercises its responsibility to oversee and ensure adherence to *The SaskEnergy Act*.

## C. Board Composition

SaskEnergy's Board of Directors is representative of Saskatchewan community and industry. The Lieutenant Governor in Council, pursuant to *The SaskEnergy Act*, appoints Board members. Members possess a variety of significant attributes, including industry expertise, strategic leadership, entrepreneurial and communication skills, integrity, flexibility, sound judgment and initiative. Board members are committed to serving the Corporation, and in so doing, serving Saskatchewan people through emphasis on client service, productivity, profitability, co-operation and sound environmental stewardship.

## D. Committees

The Board established the following four committees to assist in discharging specific areas of Board responsibility:

- Audit and Finance Committee
- Governance Committee
- Human Resources/Compensation Committee
- Safety, Health and Environment Committee

### Audit and Finance Committee

*Chair: Mervyn Simon*

The Audit and Finance Committee mandate is to assist the Board of Directors in meeting their responsibilities with respect to financial reporting, internal control and accountability. In addition, it ensures that the Board is provided with financial plans and proposals consistent with the Corporation's overall strategic plan and public policy objectives.

***Governance Committee***

*Chair: Tim Gitzel*

The Governance Committee is responsible for the development and maintenance of SaskEnergy's corporate governance practices. Among other things, its duties include evaluating the performance of the Board and establishing appropriate Board and Board committee structure, composition and mandate.

***Human Resources/Compensation Committee***

*Chair: Michael Chorlton*

The Human Resources/Compensation Committee mandate is to oversee SaskEnergy's human resource strategies, programs and practices to ensure that SaskEnergy is a corporate leader in the development and implementation of proactive human resource strategies.

***Safety, Health and Environment Committee***

*Chair: George E. Lafond*

The Safety, Health and Environment Committee mandate is to ensure the Corporation is proactively addressing safety, health and environmental issues and is in compliance with all statutory requirements.

## *E. Governance Practices*

SaskEnergy's approach to corporate governance practices is substantially consistent with the guidelines set forth in the *Canadian Institute of Chartered Accountants (CICA) Handbook* (sections entitled *Guidance for Directors* and *Governance Processes for Control*). These guidelines, which were adopted by the Board of Governors of the Toronto Stock Exchange (TSX), address the key areas of responsibility for effective corporate governance, including responsibility for stewardship of the Corporation, the Board's role in working with management and the functioning of the Board. SaskEnergy's corporate governance practices are benchmarked against the Toronto Stock Exchange Guidelines in the following Governance Scorecard.

# CORPORATE GOVERNANCE

| *TSX Corporate Governance Committee's Guidelines* | *SaskEnergy's Corporate Governance Practices* | *Consistent with TSX Guidelines* |
|---|---|---|
| *1. The board should explicitly assume responsibility for the stewardship of the corporation, specifically for:* | | |
| *(a) Adoption of a strategic planning process and approval of a strategic plan which takes into account, among other things, the opportunities and risks of the business:* | The Board of Directors has a formal mandate with responsibility to function as stewards of the Corporation, and has the obligation to manage the affairs and business of the Corporation. While the fundamental objective of the Board is to act in the best interests of the Corporation, the Board has a responsibility to ensure congruence between shareholder expectations, corporate plans and management performance. The Board acts in accordance with the governing legislation, the Corporation's Code of Conduct and the Board's Terms of Reference.<br><br>One of the Board's principal duties is to provide leadership in setting the Corporation's long-range strategic direction and to approve the Corporation's overall strategic plan. The Corporation's comprehensive strategic planning process results in the annual review and approval by the Board of the Corporation's Strategic Plan, Annual Operating and Capital Budget and Financial Plan.<br><br>In addition, the Board conducts an annual two-day comprehensive strategy session with senior management, at which the Board reviews and assesses the performance of the Corporation and its subsidiaries, reviews business plans, reviews the opportunities and risks of the Corporation's business, and reviews short-term and long-term objectives for the Corporation, including discussing and approving strategies to meet these objectives. Management must seek the Board's approval for any transaction that would have a significant impact on the Strategic Plan. | Yes |
| *(b) The identification of the principal risks of the corporation's business and ensuring the implementation of appropriate systems to manage these risks:* | The Board identifies the principal risks of the Corporation on an annual basis and through the Audit and Finance Committee, monitors the Corporation's risk management programs, in addition to overseeing the implementation of appropriate systems to manage those risks. The Audit and Finance Committee meets regularly to review reports and discuss significant risk areas with the internal and external auditors. | Yes |

| TSX Corporate Governance Committee's Guidelines | SaskEnergy's Corporate Governance Practices | Consistent with TSX Guidelines? |
|---|---|---|
| *(c) Succession planning, including appointing, training and monitoring senior management:* | The Human Resources/Compensation Committee of the Board annually reviews the adequacy of the Corporation's succession planning strategy, performance targets, and the performance evaluations of the executive officers of the Corporation. The Board supports management's commitment to training and development of all employees. | Yes |
| *(d) A communications policy for the corporation:* | Although there is no formal written policy, SaskEnergy is committed to the principles of transparency, openness and timeliness in communications with its shareholder, employees, stakeholders and the public. | Yes |
| *(e) The integrity of the corporation's internal control and management information systems:* | The Audit and Finance Committee is responsible for the financial reporting, internal control and accountability of the Corporation. This Committee reviews the integrity of the internal control processes and financial management information systems in conjunction with the internal and external auditors. | Yes |
| 2. *(a) The board of directors of every corporation should be constituted with a majority of individuals who qualify as unrelated directors:* | There are ten individuals on the SaskEnergy Board of Directors. Ronald S. Clark, President and CEO, and Jean Weimer, Assistant to the President of CEP Union, Local 649, are the only related Board members. | Yes |
| *(b) Disclosure of significant shareholders (ability to exercise a majority of votes to elect directors):* | SaskEnergy is a statutory Crown corporation and does not have any share capital. | Not applicable |
| 3. *The board is required to disclose on an annual basis the analysis of the application of the principles supporting the conclusion of whether the director is related or an unrelated director:* | Frank Proto, Chair: UNRELATED<br>- Independent Industry Business Person<br>(resigned from the Board effective Aug. 15, 2003)<br><br>Tim Gitzel, Vice Chair: UNRELATED<br>- President and CEO of COGEMA Resources (appointed Chair of the Board effective Dec. 19, 2003)<br><br>Geoffrey W. Bartlam: UNRELATED<br>- Independent Business Person | Yes |

## CORPORATE GOVERNANCE

| TSX Corporate Governance Committee's Guidelines | SaskEnergy's Corporate Governance Practices | Consistent wi TSX Guideline |
|---|---|---|
| | Michael W. Chorlton: UNRELATED<br>- Vice President, Renessen LLC, Chicago, Ill.<br>(appointed Vice Chair of the Board effective Dec. 19, 2003)<br><br>Ronald S. Clark: RELATED<br>- President and Chief Executive Officer of SaskEnergy<br>(ceased being a member of the Board effective Dec. 19, 2003)<br><br>Ralph Hesje: UNRELATED<br>- President, Wilbros MSI Canada Inc.<br><br>George E. Lafond: UNRELATED<br>- Special Advisor to the President of the University of Saskatchewan<br><br>Emmet Reidy: UNRELATED<br>- Independent Business Person<br><br>Mervyn J. Simon: UNRELATED<br>- Independent Industry Business Person<br><br>Jean Weimer: RELATED<br>- Assistant to the President of CEP Union, Local 649<br>(company employee on leave for Union business)<br><br>For the unrelated Directors, none of them, or their "associates," have worked with or for the Corporation by material contracts or has received remuneration from the Corporation in excess of fees and compensation as Directors and Committee members or as Directors of subsidiaries of the Corporation. | |
| 4. *The board of directors of every corporation should appoint a committee of directors composed exclusively of outside directors, a majority of whom are unrelated directors, with responsibility for proposing to the full board new nominees to the board and for assessing directors on an ongoing basis:* | The Corporation does not have a nominating Committee. The Governance Committee has responsibility to make recommendations to the Board on the size, composition and required qualifications of the Board of Directors. This Committee is also responsible for the ongoing assessment of Directors.<br><br>All of the Governance Committee members are outside, unrelated Directors. | Yes |

| TSX Corporate Governance Committee's Guidelines | SaskEnergy's Corporate Governance Practices | Consistent with TSX Guidelines? |
|---|---|---|
| 5. *Every board of directors should implement a process to be carried out by the nominating committee or other appropriate committee, for assessing the effectiveness of the board as a whole, the committees of the board and the contribution of individual directors:* | The Governance Committee is responsible for implementation of performance evaluations of the Board of Directors, each Committee, the Chair and individual Directors. The Committee surveys Directors to provide feedback on the effectiveness of the Board. The process is conducted by an outside third party consultant to ensure confidentiality. The results are summarized and reported to the Board of Directors, as well as the Crown Investments Corporation Board of Directors.<br><br>For 2003, the process will consist of the individual Board members completing evaluation surveys on the effectiveness and performance of the Board and of the Chair. Each of the survey results will be summarized and reported to the Board of Directors and to the Crown Investments Corporation Board of Directors. The 2003 process will be conducted internally under the guidance of the Governance Committee. In accordance with shareholder requirements, the individual Board member and Committee evaluations are scheduled to be conducted in 2004, and every second year thereafter. | Yes |
| 6. *Every corporation, as an integral element of the process for appointing new directors, should provide an orientation and education program for new recruits to the board:* | The SaskEnergy Board has approved a Board of Directors Training Policy which outlines the Corporation's commitment to the orientation and training of its incoming Board members and the ongoing training and industry education for current Board members. This policy outlines the comprehensive orientation material to be provided to incoming Board members. As part of the ongoing training for Board members, Crown Investments Corporation of Saskatchewan has facilitated additional training sessions for Board members in 2003. In addition, the Directors were provided a tour of one aspect of the Corporation's business operations. | Yes |

## CORPORATE GOVERNANCE

| TSX Corporate Governance Committee's Guidelines | SaskEnergy's Corporate Governance Practices | Consistent with TSX Guidelines? |
|---|---|---|
| 7. *Every board of directors should examine its size and undertake, where appropriate, a program to reduce the number of directors to a number which facilitates more effective decision-making:* | SaskEnergy's present Board size of nine members brings the necessary skills and experience to Board decision making to form an effective decision-making body. SaskEnergy's Governance Committee is responsible for annually assessing the size, composition and required qualifications of the Board to determine whether it has all the necessary constituents for effective decision-making. | Yes |
| 8. *The board of directors should review the adequacy and form of the compensation of directors and ensure the compensation realistically reflects the responsibilities and risk involved in being a director:* | The Human Resources/Compensation Committee is responsible for annually reviewing the compensation for the Board members and the Chair, and recommending to Crown Investments Corporation of Saskatchewan for approval any proposed adjustments to compensation levels. Crown Investments Corporation of Saskatchewan is mandated by legislation to fix the remuneration and rate of reimbursement for expenses of directors. | Yes |
| 9. *(a) Subject to guideline 13, committees should be generally composed of outside directors:* | The Board has appointed four Committees:<br>• Audit and Finance Committee<br>• Governance Committee<br>• Human Resources/Compensation Committee<br>• Safety, Health and Environment Committee<br>Committees are comprised solely of non-management members, except the Human Resources/Compensation Committee and the Safety, Health and Environment Committee, where Jean Weimer, a unionized employee on leave from the Corporation, is a member. | Yes |
| *(b) The majority of committee members should be unrelated:* | The majority of Committee members are unrelated. | Yes |

| TSX Corporate Governance Committee's Guidelines | SaskEnergy's Corporate Governance Practices | Consistent with TSX Guidelines? |
|---|---|---|
| 10. *Every board of directors should expressly assume responsibility for, or assign to a committee of directors the general responsibility for developing the corporation's approach to governance issues. This committee would, among other things, be responsible for the corporation's response to these governance guidelines:* | The Governance Committee is mandated to be responsible to the Board for governance of SaskEnergy, including issues related to governance and conflict of interest involving Directors and Senior Executives. The Governance Committee has reviewed and approved this report. | Yes |
| 11. *(a) The board of directors, together with the CEO, should develop position descriptions for the board and for the CEO, involving the definition of the limits to management's responsibilities:* | The Board of Directors has developed the Board's Terms of Reference which outline the responsibilities for the Board and management. The Board of Directors has approved policies for the execution of documents and expenditure authorities for the CEO and Senior Management. These policies clearly outline the limits to Senior Management's authorities and the levels for which matters must receive Board of Directors approval. | Yes |
| *(b) The board should approve or develop the corporate objectives which the CEO is responsible for meeting and assess the CEO against these objectives:* | The Human Resources/Compensation Committee annually reviews with the CEO the performance targets and performance evaluation of the CEO and the Executive Officers. The CEO's performance is assessed against the Corporation's annual objectives. The results of the CEO's performance is reported to the full Board. | Yes |
| 12. *Every board of directors should have in place appropriate structures and procedures which ensure that the board can function independently of management:* | The Board structure at SaskEnergy is such that the Chair of the Board is unrelated. The Board meeting procedures are such that at each meeting the Board conducts an in-camera session whereby Management, including the President and CEO who is a Board member, are excused from the meeting. | Yes |

# CORPORATE GOVERNANCE

| TSX Corporate Governance Committee's Guidelines | SaskEnergy's Corporate Governance Practices | Consistent with TSX Guidelines? |
|---|---|---|
| *13. The audit committee of every board of directors should be composed only of outside directors. The roles and responsibilities of the audit committee should be specifically defined so as to provide appropriate guidance to audit committee members as to their duties. The audit committee should have direct communication channels with the internal and external auditors to discuss and review specific issues, as appropriate. The audit committee's duties should include oversight responsibility for management reporting on internal control. While it is management's responsibility to design and implement an effective system of internal control, it is the responsibility of the audit committee to ensure that management has done so.* | All members of the SaskEnergy Audit and Finance Committee are outside Directors.<br><br>SaskEnergy's Audit and Finance Committee's Terms of Reference states that the Committee has a mandate to, among other things:<br><br>• Review with management and the external auditors, and recommend to the Board for approval, the Annual Audited Financial Statements of the Corporation and its wholly owned subsidiaries.<br><br>• Review and recommend for approval of the Board the Management's Discussion and Analysis (MD&A) section of the Annual Report, as well as any other disclosure documents containing financial statements or financial information of the Corporation.<br><br>• Review the semi-annual financial statements.<br><br>• Review annually the results of the external auditors' review of the Corporation's financial records.<br><br>• Review the results of the reports of the internal and external auditors with respect to the state of the Corporation's internal control systems.<br><br>• Review the quality of service and the performance of the external auditors and recommend the appointment or reappointment of the external auditors. The Committee has sole authority for the relationship with the external auditors, including recommending the terms of their audit engagement and related fees.<br><br>• Review internal audit costs, external audit fees, directors' expenses, senior management's expenses and the material outstanding litigation report.<br><br>• Review and approve the plans of the Corporation's internal auditor. | Yes |

| TSX Corporate Governance Committee's Guidelines | SaskEnergy's Corporate Governance Practices | Consistent with TSX Guidelines? |
|---|---|---|
| | • Review financial forecasts.<br>• Review annually the efficacy of the Corporation's policies relating to execution of documents, derivatives, and expenditures.<br>• Review annually the objectives, goals and basic principles in use of financial derivatives to manage interest rates, gas price and foreign currency risk, and the Gas Marketing Business Plan.<br>• Review quarterly the performance and execution of the Gas Price Hedging Strategy, Corporate Debt Strategy and Foreign Exchange Hedging Strategy as contained in the Corporate Derivatives Policy.<br>• Review annually the borrowing and new venture financing of the Corporation.<br>• Review annually the insurable risks and insurance coverage, the Corporate Credit Risk Management Policy and the procedures for commodity risk management.<br>• Monitor management's process for identifying, controlling and reporting those financial risks that could have a material impact on the Corporation's financial reporting. | |
| *14. The board of directors should implement a system which enables an individual director to engage an outside advisor at the expense of the Corporation in appropriate circumstances. The engagement of an outside advisor should be subject to the approval of an appropriate committee of the board:* | The Board or any Committee of the Board may obtain the advice and counsel of external advisors if, in the opinion of the Board or Committee, it is necessary in order to properly discharge their function, duties and responsibilities that such advisor be engaged. | Yes |

SaskEnergy

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